# MONETARY POLICY STATEMENT

THE THIRD QUARTER TO 30 SEPTEMBER, 2004

Issued

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

By

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GOVERNOR

RESERVE BANK OF ZIMBABWE

OCTOBER 2004

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The Monetary Policy Statement is issued by-annually, in January and June of each year. In an attempt to lay out the Bank's Monetary Policy stance and consistent with the 2004 national Budget and the Governor's maiden Monetary Policy Statement announced on 18 December, 2003, it has become necessary, however, to review and articulate complementary monetary measures on a quarterly basis, at the same time, fulfilling the requirements of the Reserve Bank of Zimbabwe Act.

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## RESERVE BANK OF ZIMBABWE

## MONETARY POLICY STATEMENT: 2004 THIRD QUARTER REVIEW

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### 1. INTRODUCTION AND BACKGROUND

1.1 Honourable Minister (of Finance and Economic Development), this Monetary Policy Statement, which reviews the first nine months of 2004 and gives economic policy direction for the outlook period, is presented to you and the Nation in line with statutory requirements as stipulated in the Reserve Bank of Zimbabwe Act, Chapter 22:15 Section 46.

1.2 The last nine months of the year have seen us drive the economy from an unstable macro-economic environment, characterized by negative GDP growth, hyper-inflation, growing unemployment, growing debt and arrears, shrinking real incomes, minimal domestic and foreign investment, and a subdued productive base, among other challenges, to the positive path now forming a solid base for a brighter future.

1.3 The last nine months have also seen us propelling our economic ship away from a predominantly shortage economy, which was characterized by low stocks of hospital drugs and medicines, shortages of foreign currency, shortages of fuel and frequent interruptions of electricity supplies, shortages of basic necessities such as bread, milk and cooking oil, among many other gaps, to a point where now shortages of basic commodities are a thing of the past.

1.4 The last nine months, Honourable Minister, have seen us taking off our coats and getting our act together; reaching out to all stakeholders and, harnessing our collective efforts towards improving our situation all-round.

1.5 I am pleased to report that the efforts, the focus and collective determination we have been putting into the exercise have not been in vain.

1.6 As a Nation, we are beginning to shed tears of joy, reminiscent of a people who have just escaped from the jaws of a lion. Our economic situation at the beginning of the year was depressing, but through unity of purpose, Zimbabweans have arrested the general economic meltdown.

1.7 In moving the economy forward, we have had to move through the proverbial "Indian Summer Season", characterized by the financial sector bubble of the past. Although we are not fully out of that season yet, we are at the tail-end of it.

1.8 Concurrently with the said Indian Summer Season, we have been facing a peculiar Winter Season in our economy, where we had to deal with the vices of a calculated destruction phase, combining creative accounting, technical mismanagement of entities, fraudulent misrepresentation, and cosmetic financial reporting.

1.9 The veil of these vices had shrouded corruption, deceit and the collapse of good corporate governance standards and weakening of the moral fiber in the economy.

1.10 Our assessment of the situation is that although there still remains some clean-up work to be done from both the Indian Summer and the Winter Seasons of our turnaround, the economy has now entered the Spring phase.

1.11 This Spring Season is characterized by improvements all round, with greater focus being placed on generating positive supply response to the supportive efforts made to date, fortified by continued monetary restraint and fiscal rectitude.

1.12 Our ultimate objective is to drive the economy into an economically nutritious and productive Summer Season, where prosperity for all Zimbabweans is assured.

1.13 Long summer season, where the economically strong are just and generous with their wealth, while the poor, the children, the elderly and the disadvantaged members of our society feel secure about their future.

## 2. THE ADVISORY BOARD

2.1 Over the period under review, the Governor and his team continued to draw and benefit from the Bank's Foreign Exchange Auction Advisory Board, which was expanded to include the captains of our Government Machinery, the Permanent Secretaries, without whose involvement no program can succeed.

2.2 In this regard, I wish to thank the Chief Secretary to the President and Cabinet, Dr J. M. Sibanda for facilitating this integration process.

2.3 The Employers Association, through the Employers Confederation of Zimbabwe (EMCOZ) was also invited to join the Advisory Board, alongside the labor bodies of the Zimbabwe Congress of Trade Unions (ZCTU) and the Zimbabwe Federation of Trade Unions (ZFTU). We are pleased with their contributions.

2.4 Various Advisory Board Subcommittees were set up during the period under review, to give incisive policy advice. These sub-committees are:

(a) Pricing and Income Policy Subcommittee.
(b) Monetary Policy Impact Assessment Subcommittee.
(c) Foreign Exchange Market Stabilization Subcommittee.
(d) Energy and Infrastructure Development Subcommittee.
(e) Economic Empowerment Subcommittee.
(f) Diaspora Communications and Publicity Subcommittee; and
(g) The Taskforce on Agriculture.

2.5 The Advisory Board will, during the coming quarter, establish other taskforces encompassing all the other sectors of the economy, focusing on Tourism, Mining, and Human Capital Development, among many others.

2.6 The dedication of the members of the entire Board and its subcommittees is reflected in the modest improvements I am about to report upon.

2.7 A full list of the Governor's Advisory Board is included as Appendix to this Statement.

2.8 Honorable Minister, the past ten months, since December, 2003, have taught us, as your Central Bank that **sustainable** macroeconomic stability does not come **cheaply** or without **necessary pain.**

2.9 As we take stock of our achievements, limitations and remedial strategies for the future, it is opportune that we recognize and thank all committed fellow Zimbabweans, men and women, across all social strata, for their infinite energy and enthusiasm, which continues to lighten the otherwise challenging turnaround journey.

## 3. FINANCIAL SECTOR STABILITY

3.1 Developments in the country's financial sector over the past ten months have left some market players likening them to an "earthquake" in the industry, following the Central Bank's introduction of stringent supervision and surveillance standards.

3.2 These measures, which have seen six institutions being placed under curatorship are being implemented with the core objective of creating a stable, reliable and development-oriented financial system that is run along the virtues of transparency, prudence, accountability and international best practices.

3.3 It is imperative that the banking public understands the following factual points on the circumstances leading up to placement of banks under curatorship:

(a). that the placing of an institution under curatorship is taken as a last resort measure by the Central Bank after all alternative **corrective options** have been exhausted.

(b). that in essence, a bank is placed under curatorship only after the Central Bank has certified that the public's funds have been misappropriated or mismanaged, with the result that the institution no longer has capacity to pay out all depositors as they demand their money.

(c). that the management and Boards of some banks, upon realizing their inability to honor depositors' withdrawal requirements, typically approach the Reserve Bank, pleading for placement under curatorship in order to get protection from the wrath of public anger.

(d). the freezing of operations when a bank is placed under curatorship, thus, allows for assets and liabilities stability, whilst alternative viable options to resuscitate the institution are considered.

(e). The decision to place an institution under curatorship, by its very nature can not and will not be **forewarned and announced to the market in advance**, as this would in effect lead to an accelerated run on the institution, as the market engages in a panic and destructive stampede on the institution.

3.4 I hope that this clarifies the important issue, as there has been a great deal of **misrepresentation of facts** by a number of affected stakeholders who have been misled to innocently believe that the Reserve Bank is pursuing other sinister motives than those enshrined in our founding statutes and/ or pronouncements through our Monetary Policy Statements.

3.5 There is thus never a time one can say is a "good time" to place an institution under curatorship – month-end or mid-month!

## NEW CAPITAL REQUIREMENTS

3.6 In order to ensure maintenance of a strong and vibrant banking sector, the Reserve Bank prescribed new minimum capital requirements on 2 January 2004 and all banking institutions were required to be compliant by 30 September 2004.

3.7 Of the 40 banking institutions, a total of 29 (or 72.5%), are already in compliance with the new requirements, with some having achieved this through strategic alliances in the form of mergers and acquisitions.

3.8 A total of eleven (11), (or 27.5%) banking institutions faced challenges in meeting the new requirements, and had no concrete recapitalization plans. **Out of these, seven (7) are under curatorship whilst two (2) are under provisional liquidation and the other two (2) sought and we granted dispensation to regularize their capital positions before 31 December, 2004.**

### Banks under Curatorship or Provisional Liquidation

| Under Curatorship | Under Provisional Liquidation |
|---|---|
| 1. Trust Bank Corporation Ltd | 1. First National Building Society Ltd |
| 2. Royal Bank Zimbabwe Ltd | 2. Rapid Discount House Ltd |
| 3. Intermarket Discount House Ltd | |
| 4. Intermarket Banking Corporation Ltd | |
| 5. Intermarket Building Society Ltd | |
| 6. Barbican Bank Ltd | |
| 7. Time Bank of Zimbabwe Ltd | |

### Banking Institutions which Complied with Capital Requirements and are in a Sound Condition

| | |
|---|---|
| 1. Standard Chartered Zimbabwe Bank Ltd | 16. Highveld Discount House Ltd |
| 2. First Banking Corporation Ltd | 17. Tetrad Securities Ltd |
| 3. Commercial Bank of Zimbabwe (Jewel Bank) Ltd | 18. National Discount House Ltd |
| 4. Metropolitan Bank of Zimbabwe Ltd | 19. ABC Asset Finance Ltd |
| 5. Stanbic Bank Zimbabwe Ltd | 20. ZDB Financial Services Ltd |
| 6. NMB Bank Ltd | 21. Genesis Investment Bank Ltd |
| 7. Century Bank Ltd | 22. MBCA Bank Ltd |
| 8. Kingdom Bank Ltd | 23. CFX Merchant Bank Ltd |
| 9. Zimbabwe Banking Corporation Ltd | 24. ABC Limited |
| 10. Barclays of Bank Zimbabwe Ltd | 25. Interfin Merchant Bank Ltd |
| 11. Agricultural Bank of Zimbabwe Ltd | 26. Renaissance Merchant Bank Ltd |
| 12. Central African Building Society Ltd | 27.Discount Company of Zimbabwe Ltd |
| 13.Beverley Building Society Ltd | 28. Trustfin (Pvt) Ltd |
| 14. ABC Securities Ltd | 29. People’s Own Savings Bank (POSB). |
| 15. Premier Banking Corporation Ltd | |

### Banking Institutions in the Process of Regularizing their Capital Positions Before 31 December, 2004.

| **Institution** |
|---|
| 1. Zimbabwe Building Society Ltd |
| 2. Sagit Finance House Ltd |

3.9 As Monetary Authorities we want to reassure the market that we are working with the Boards and management of those institutions that failed to meet the capitalization requirements to regularize outstanding anomalies in a manner that is least-disruptive to the financial sector, the banking public and to the economy as a whole.

3.10 The new international **Basel II Capital Accord,** which is intended to align regulatory capital requirements more closely with economic capital requirements, will be implemented in Zimbabwe on a phased basis.

3.11 The Reserve Bank will be communicating to the market in due course on the preparatory work that will be required for full roll out of this new global development.

**Are the New Bank Capital Requirements Too High?**

3.12 Sentiment from some segments of the banking fraternity and society in general has been advanced, suggesting that the new capital requirements are too harsh and out of line with regional and international thresholds.

3.13 As your Central Bank, it is our duty and statutory responsibility that we exercise the greatest level of clarity and transparency in the policies that we set out to implement.

3.14 Consistent with this, we wish to indicate to the financial sector and the general public that the country's revised capital requirements for banks and other financial institutions are **well in line with regional thresholds.**

3.15 A comparative study of regional economies' capital requirements in the financial sector shows that as a country, we need to progressively strengthen our financial system through on-going assessments and reviews of capitalization thresholds.

3.16 From that study and comparative analysis, it should be apparent that Zimbabwe's new capital requirements are **not onerous at all**, by regional standards, especially when one takes into account the level of sophistication in the country's financial services industry, as well as envisaged growth of demand for banking services over the medium to long-term.

3.17 Thus, postulations that the recent recapitalization requirements are harsh or intended to undermine the gains of indigenization of the financial sector are, therefore, nothing but forgivably uninformed and invalid sentiments by those not serious enough to realize that you cannot have your cake and eat it at the same time.

3.18 The business of banking is not for the faint-hearted shareholders or those who are up to make a "quick-buck" out of public funds.

## TROUBLED BANK POLICY

3.19 As Monetary Authorities, we are working tirelessly to clear the outstanding structural challenges prevailing in the banking industry as expeditiously as possible.

3.20 Out of the country's 40 Banking institutions, a total of seven (7) have accessed financial assistance from the Reserve Bank, under the Troubled Bank Fund (TBF), which was established to resolve gridlocks in the payments and settlements systems; as well as to provide the affected institutions some headroom to resolve identified deficiencies.

3.21 A number of banking institutions that benefited from the Troubled Bank Fund have not only failed to repay the loans, but have also neither been able to recapitalize themselves nor successfully enter into voluntary mergers with other market players in the banking industry.

3.22 Some market players with capability have tried to absorb these troubled institutions but have had to "run away" at breath-taking speed, after carrying out due diligence exercises and discovered the extent of the misdemeanors perpetrated by former owner-managers and their boards.

3.23 These unfortunate events have been further accentuated by an astonishing degree of indifference and a carefree attitude by the failed boards, management and shareholders, who show no remorse whatsoever but are seen sprouting in one form or shape outside our borders.

3.24 Some of the shareholder-managers, long accustomed to the previous system where liquidity support was viewed as a birth-right, even in the face of outright abuse of such privileged access, have found themselves at their wits-end when asked to find market solutions to their predicament, **leaving us now with no option but to foist a solution down their throats.**

3.25 Whilst the next logical and orthodox step would have been to allow all the institutions in difficulties to wind down and close shop, a more balanced and holistic approach is always taken.

3.26 This “soft-landing” strategy will be implemented as a lasting solution to the structural challenges and risks posed by the troubled banks.

3.27 Greater prominence and priority will be attached to ensuring overall stability of the banking industry, preservation of employment, as well as preserving the gains of indigenization and empowerment that had taken root in the financial services industry.

3.28 Access to the Troubled Bank Facility is, however, not without consequence or penalties, and players in the market need to take note accordingly.

**TROUBLED BANK RESOLUTION FRAMEWORK**

3.29 With effect from January 2005, the Reserve Bank will implement a comprehensive Troubled Bank Resolution (TBR) Policy, to decisively deal with the troubled banks who have failed to tread out of their difficulties.

3.30 The following are the salient features of this framework:

(a). All amounts owed to the Reserve Bank by the troubled banks will be converted into equity.

(b). A Special Purpose Vehicle (SPV) will be established to hold the equity in the troubled banking institutions, acquired through conversion of debt to equity.

(c). Existing shareholders will write down whatever is left of their shareholding, if any, in line with assessed levels of undercapitalization and bank losses deemed to be a result of misappropriation and/ or mismanagement.

(d). To safeguard the Central Bank's independence and neutrality in discharging its supervisory and surveillance roles, the SPV, called **Allied Financial Services Ltd** will be a jointly owned entity between Government, creditors, and depositors who would have converted their deposits into equity. The SPV is, thus, not a Reserve Bank-owned entity.

(e). The troubled banking institutions will be amalgamated into one entity, under the name **Zimbabwe Allied Banking Group (ZABG)**, initially to be managed by an appointed Management Board of turnaround and integration experts, supported by a competent Management Board of Directors.

(f). Post stabilization, Government and its partners can offload the shares in ZABG to a wider base of owners, under indigenization and empowerment programs that benefit a wider cross-section of the people of Zimbabwe than is the case at present.

(g). Banking institutions amalgamated into the ZABG will be taken as Special Business Units (SBUs), managed by the said experts at appropriate levels.

(h). The SBUs will have one main board in order to ensure efficient and effective coordination of strategy and alignment of operations.

3.31 In coming to this policy position, immense preparatory work has been done to ensure that there is a smooth transition and integration of the individual previously troubled banks into one entity.

3.32 As Monetary Authorities, we wish to sternly point out to the financial sector that no traits of financial mismanagement and disregard for regulatory requirements will ever be tolerated again.

3.33 Defaulters will, without fail, meet with firm corrective measures, as we are not going to reward errant behavior and mismanagement through lax intervention policies.

3.34 Cries from some ill-informed quarters bent on accusing the Central Bank of this or that shall be ignored and taken for what they are… cheap politiking for short-term personal gains.

3.35 Those management teams, shareholders or board members, committees and their associates who, through impropriety or sheer greed, siphon resources out of their institutions are no better than a farmer who eats all the seed maize and hope to remain in the farming business! Zimbabweans deserve better than that.

**EFFECTIVE DATE**

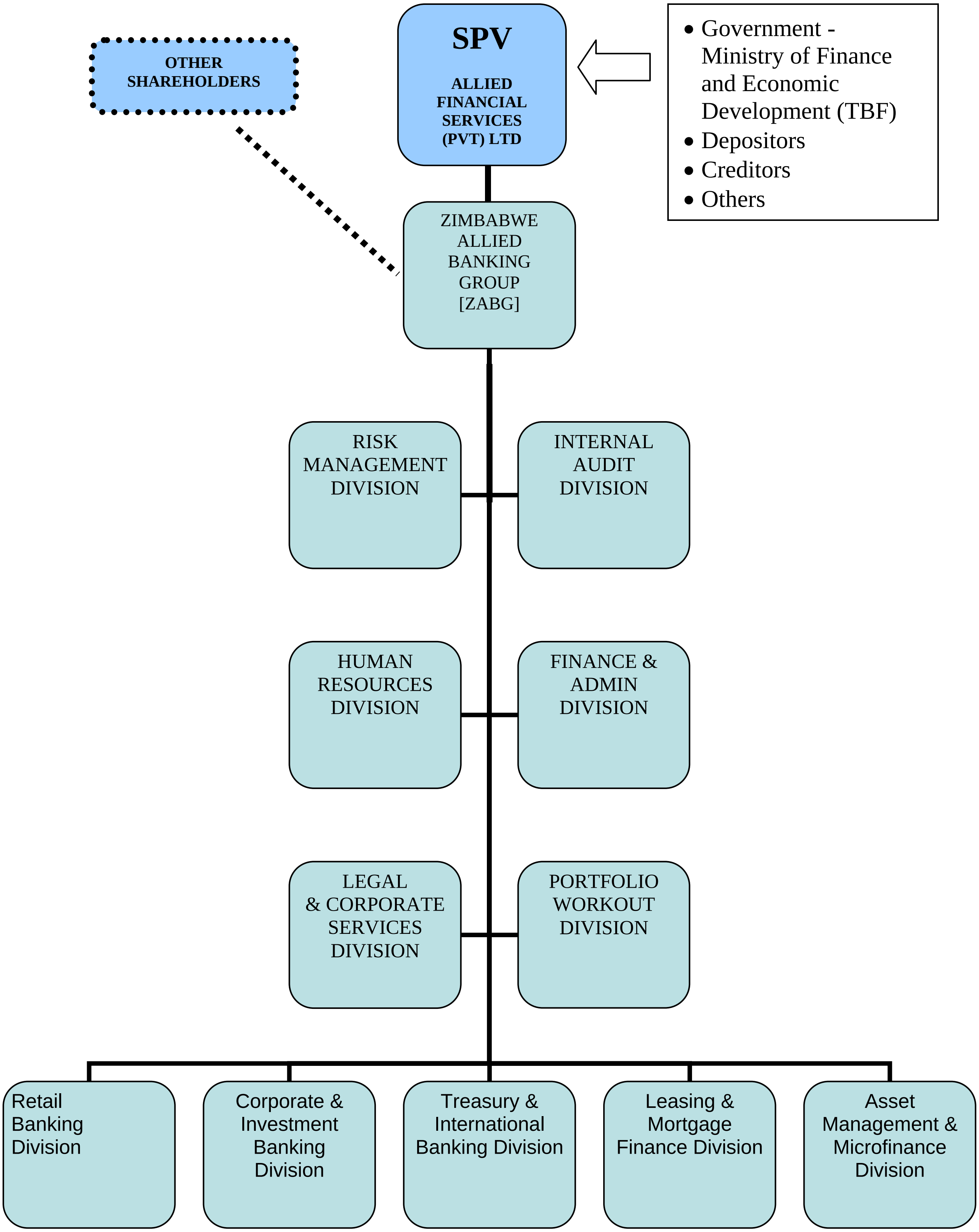
3.36 This Resolution Strategy is due for implementation in **January, 2005,** and the market will, in due course, be informed as to who will be affected.

3.37 All curators of financial institutions that have been placed under their care are expected to have completed their evaluations and recommendations for the way forward by then.

3.38 It is expected too, that between now and then, these institutions not yet under curatorship but who have registered merger or other plans to strengthen themselves would have done so and fulfilled those ambitions before then.

3.39 The 60 day period to 31 December, 2004, allows us, as the Central Bank, to complete all legal, administrative, compliance, logistical issues, and consultations necessary to make ZABG a resounding success right from its launch in January, 2005

## Structure of Zimbabwe Allied Banking Group



## IS ZIMBABWE OVERBANKED?

3.40 There has been increasing debate on whether or not the Zimbabwean economy is over banked.

3.41 Some have gone to even believe and suggest that international financial organizations have prescribed that the economy ought to have a certain number of banks or players in our banking industry. Nothing could be further from the truth, as we hold no brief from any outside organization in as far as the clean-up of our financial sector is concerned, and have received neither command nor directives from anyone.

3.42 The banking sector reforms are our own and we shall remain accountable for the outcome of these reforms as Zimbabwe's Monetary Authorities.

3.43 Our well considered view is that the empirical question on the optimal number of players in the banking industry is one which can only be answered after detailed analysis of the structure and sectoral synergies, as well as the hygienic factors at play in the economy. **And we have done this hygienic analysis.**

3.44 Firstly, the majority of banking institutions are primarily concentrated in a few urban areas, with limited and in most cases, non-existent representation across the entirety of the country's main centers of economic activity.

3.45 Secondly, as the economy's disinflation program continues to bear positive results, the proportion of bankable population is set to grow significantly, creating scope for greater demand for banking services across the country.

3.46 One of the key tenets of the Land Reform Program is broadening the critical mass of economic agents actively involved in mainstream production, and this again will create growing demand for wider banking services.

3.47 The banking industry, therefore, has to harness these positive prospects by re-aligning their value propositions to profitably cater for the needs of what has traditionally been regarded as the "unbankable" mass market.

3.48 Another critical indicator on whether or not an economy is over banked is the extent of oligopolistic tendencies – a case where the power of service providers is disproportionately concentrated in a few muscular players, with the rest of the market commanding a small market share and, hence, invariably being market-followers.

3.49 Furthermore, the spread and diversity of interest rate margins, commissions, as well as other bank charges across different financial services providers can be used as benchmarks to indicate the degree and nature of competition in the market.

3.50 As Monetary Authorities, we continue to observe deep-rooted heterogeneity of bank charges, wide and disparate interest rate spreads, as well as fragmented product offerings at different stages of development.

3.51 These observed realities seem to indicate that our financial system remains largely segmented with strong elements of oligopolistic trading, effectively prompting a need for deeper competition among players.

3.52 Attentive efforts on creating a sound, robust and well managed banking system are, therefore, expected to increase competition in the banking industry, much to the benefit of the banking public and the economy as a whole.

3.53 An optimally banked market is one where there is intense competition which is visible through reduced bank transaction costs and converging interest rate margins.

3.54 In articulating issues around optimality of numbers of players in the banking sector, there is, therefore, need to separate observed structural challenges bred and fed by speculative practices, often motivated by greed and insatiable rent-seeking behavior, from the numbers issue.

3.55 Where management, boards or shareholders depart from core norms and guidelines of the banking profession, in pursuit of quick gains, it should not necessarily be extrapolated to mean that banks are too many and, hence, crowding each other out.

3.56 The Reserve Bank's integrated risk-focused supervision and surveillance framework will, therefore, continue to be vigilant, especially against elements of misappropriation, weak internal controls, imprudent oversight, or shortsighted strategic planning.

3.57 Against the background of the reforms being implemented, the country's financial system will, no doubt, emerge much stronger and more poised to play a supportive role in building a prosperous economy.

3.58 Thus, the economy as a whole, not us, will determine the number of banks it can profitably and responsibly carry.

## BANKING SUPERVISION AND CORPORATE GOVERNANCE GUIDELINES

3.59 In my Monetary Policy Review Statements for the first and second quarters of this year, I promised the banking industry that the Central Bank would issue a catalogue of incisive guidelines to steer the industry in various aspects of their operations.

3.60 I am pleased to report, Honorable Minister, that the Reserve Bank has issued five guidelines as follows:

(a). Guideline No. 01–2004: **Corporate Governance**: effective 30 September 2004.

(b). Guideline No. 02–2004: **Minimum Internal Audit Standards in Banking Supervision:** effective 30 September 2004.

(c). Guideline No. 03–2004: **Disclosures by Financial Institutions:** effective 31 December 2004.

(d). Framework for Relationship between Bank Examiners and External Auditors: effective 31 October 2004.

(e). Criteria for Accreditation of Rating Agencies: effective 31 October 2004.

3.61 In addition to the above, guidelines on the allocation of capital for market risk were issued in February, 2004, as part of the Consolidated Supervision framework.

3.62 Other Policy Guidelines due for publication and implementation by 31 December 2004 are:

(a). Risk Management guidelines;

(b). Electronic Banking guidelines;

(c). Registration of Bank Holding Companies (BHCs);

(d). Consumer Protection guidelines; and (e). Special Purpose Vehicles (SPVs) guidelines.

3.63 I propose to issue these guidelines to the market before the end of this year so that we do not carry this clean-up work into next year.

## REGISTRATION OF NON-BANK FINANCIAL INSTITUTIONS

### Asset Management Companies

3.64 The processing of all applications for asset management companies has now been finalized.

3.65 A total of 58 applications were received for registration as asset management companies, 31 institutions were licensed, 9 have been closed and are in the process of winding up, while 18 were rejected.

3.66 The Reserve Bank has since published a status report for guidance of members of the public and investors. From 31 August 2004, no asset management company is allowed to operate without a license.

### Microfinance Institutions and Moneylenders

3.67 As at 30 September, 2004, a total of 41 applications for Microfinance Institutions were received, 6 applications were licensed, 1 was voluntarily withdrawn, 1 was declined and 33 applications are at various stages of review.

3.68 This work will be finalized before the end of 2004 so that we begin 2005 looking at other challenges and not “carry-forwards.”

**Money Lending Institutions**

3.69 A total of 170 applications were received for registration as money lending institutions, 27 were licensed, 1 was rejected and the rest are at various stages of evaluation.

3.70 Once again, we wish to advise applicants to be responsive to additional information requests by the Bank, so as to expedite the appraisal process.

**ACCREDITATION OF BANK RATING AGENCIES**

3.71 The criteria for accreditation of local and foreign rating agencies were published in September 2004.

3.72 In order to qualify for accreditation, rating agencies should have been operational for a minimum of two years; have clearly documented methodologies, subject to validation by the Reserve Bank for consistence, uniformity and integrity.

3.73 It is imperative that banking institutions gear themselves up for this imminent rating framework, as this is set to open up immense opportunities for the industry, as active players in the global financial marketplace.

**BANKING SUPERVISION APPLICATION (BSA)**

3.74 The implementation of the SADC/ESAF information technology harmonization project, called Banking Supervision Application (BSA) commenced on 6 September 2004.

3.75 The application provides for the automation of banking supervision, business processes, workflows and risk analysis. It also ensures that information submitted by banking and non-banking institutions is secure.

3.76 The application also facilitates harmonization of information requirements in the East and Southern African Banking Supervisors' Group (ESAF).

3.77 Banks and Non-bank Financial Institutions under the supervision of the Reserve Bank will be issued with new templates for statutory returns. The system is expected to go live at the beginning of November, 2004.

## ENGAGEMENT IN UNDESIRABLE PRACTICES

3.78 As Monetary Authorities, we note with great concern that some banking institutions are once again extending their tentacles of operations to activities outside and far removed from their traditional core business, without seeking consent of or authority from the Reserve Bank.

3.79 It must be emphasized that whilst the Banking Act provides for banking institutions to engage in additional banking activities, it is still mandatory that the respective institutions seek authority from the Reserve Bank.

3.80 This requirement is necessary, to enable the Reserve Bank to assess the preparedness of those banks to undertake the additional activities, as typically, such additional activities have far reaching implications for capitalization requirements, among other asset-liability realignment requirements.

3.81 In line with the recently issued Guidelines on Corporate Governance, banking institutions will be monitored to check if the following corporate policies and codes of conduct are in place:

(a). Code of Ethics

(b). Directors Code of Conduct/Best Practice

(c). Declaration of Interest Policy

(d). Policy on insider loans

(e). Policy on insider dealing

(f). Environmental policy and other policies on social responsibility.

(g). Trading in shares of Insolvent Institutions

**USE OF SPECIAL PURPOSE VEHICLES**

3.82 We are vividly aware that Special Purpose Vehicles (SPV's) are being used by some financial institutions to evade provisions of the Banking Act, thereby carrying out speculative activities that compromise stability of the financial system, as well as put depositors' funds at unnecessary risk.

3.83 The Banking Act is being amended to bring SPVs under the reach and ambit of the Reserve Bank's supervisory arm.

3.84 Under the imminent framework, any SPVs controlled by banking institutions will be subject to consolidated supervision and treated as related entities.

3.85 A wholly owned SPV subsidiary will not be allowed to conduct any business that the banking institution is not authorised to conduct.

3.86 Banking institutions and/or bank holding companies shall be required to obtain the Reserve Bank's written approval prior to undertaking any schemes involving the use of SPV's.

3.87 A Guideline alluding to these developments was circulated to the market at the end of September, 2004.

## REGIONAL OFFICES

3.88 In my maiden Monetary Policy Statement, on the 18th of December, 2003, I advised that the Reserve Bank was going to open regional offices to increase its supervisory visibility in the market.

3.89 I am pleased to report that all logistical arrangements have now been finalised. With effect from 1 November, 2004, the Bank Licensing, Supervision and Surveillance Division will open and operate Regional offices in Bulawayo, Gweru and Mutare.

3.90 More centers will be opened in the new year.

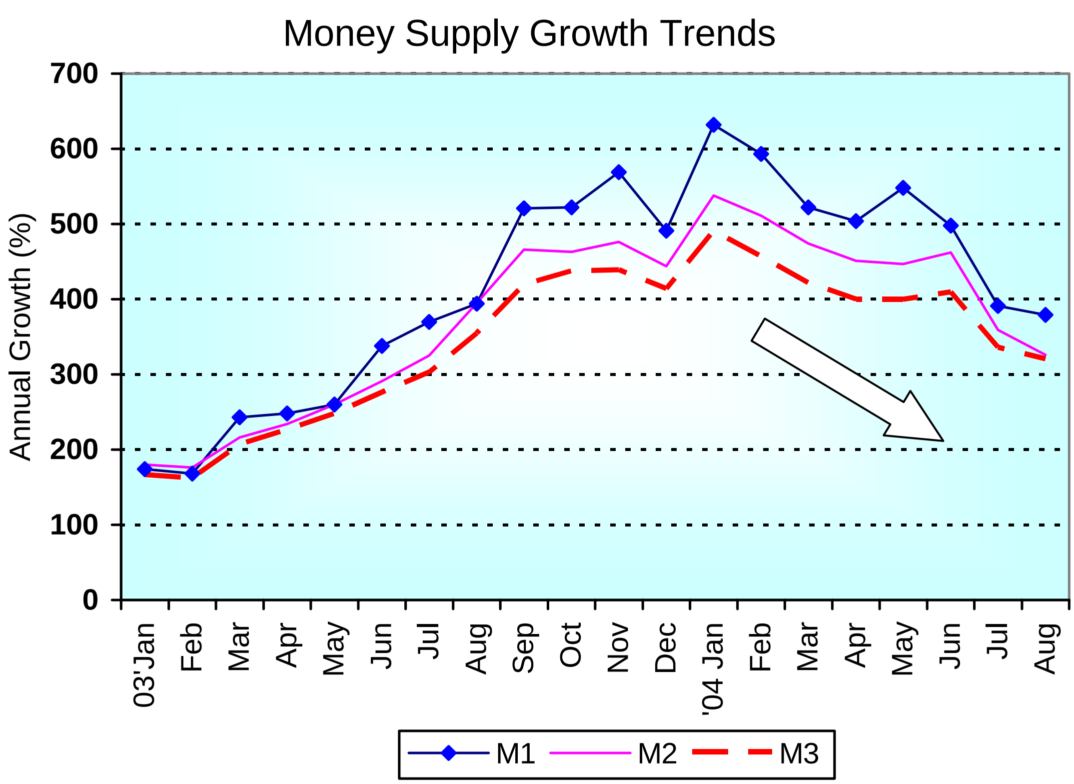
3.91 This move is expected to enable the Bank to effectively respond to supervisory and other challenges in the execution of its mandate to maintain stability in the country's financial system.

# 4. MONETARY AGGREGATES AND LIQUIDITY MANAGEMENT

## Money Supply and Domestic Credit Developments

4.1 Monetary control remains a major objective of the Central Bank. Consistent with the anti-inflation drive, annual money supply growth has trended downwards from **490.9%** in January 2004 to **320.6%** in August 2004.

4.2 Stringent liquidity management through the Bank's open market operations (OMO), supported by continued fiscal rectitude, will ensure that money supply growth levels are consistent with the set disinflation program.

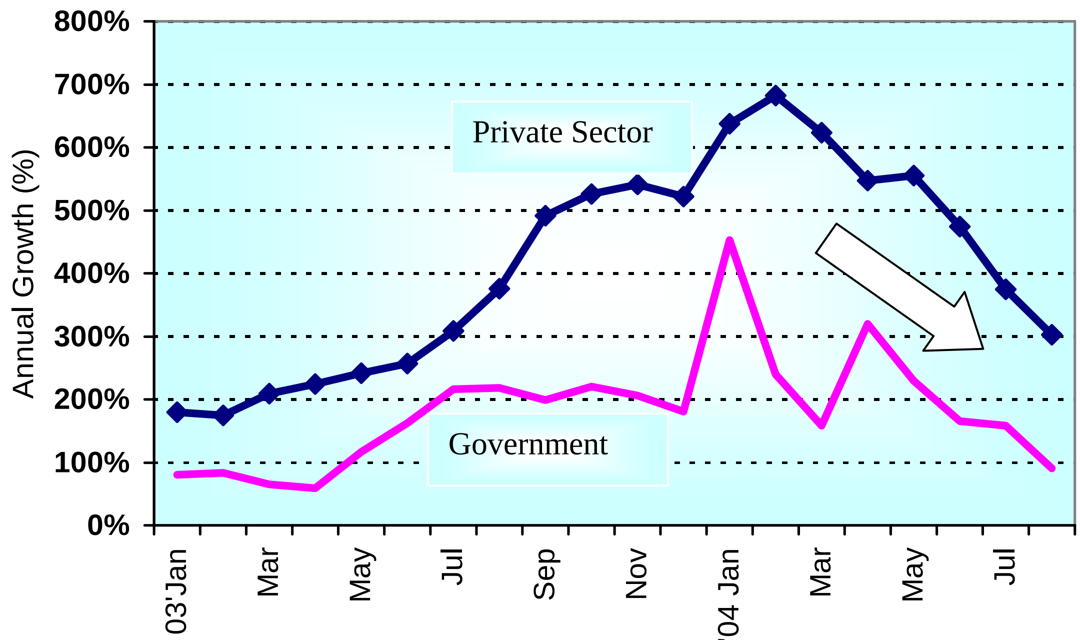


## Domestic Credit

4.3 The main sources of monetary growth have historically been expansion in credit to government and private sectors, which peaked at 452.9% in January 2004, and 682.1% in February, 2004, respectively.

4.4 The tight monetary policy stance and the active mopping up program currently in place has, however, significantly slowed down credit growth to Government and the private sector to 90.5% and 302.5%, respectively as of end of August, 2004.

Credit to Government and Private Sector: Annual Growth (%)

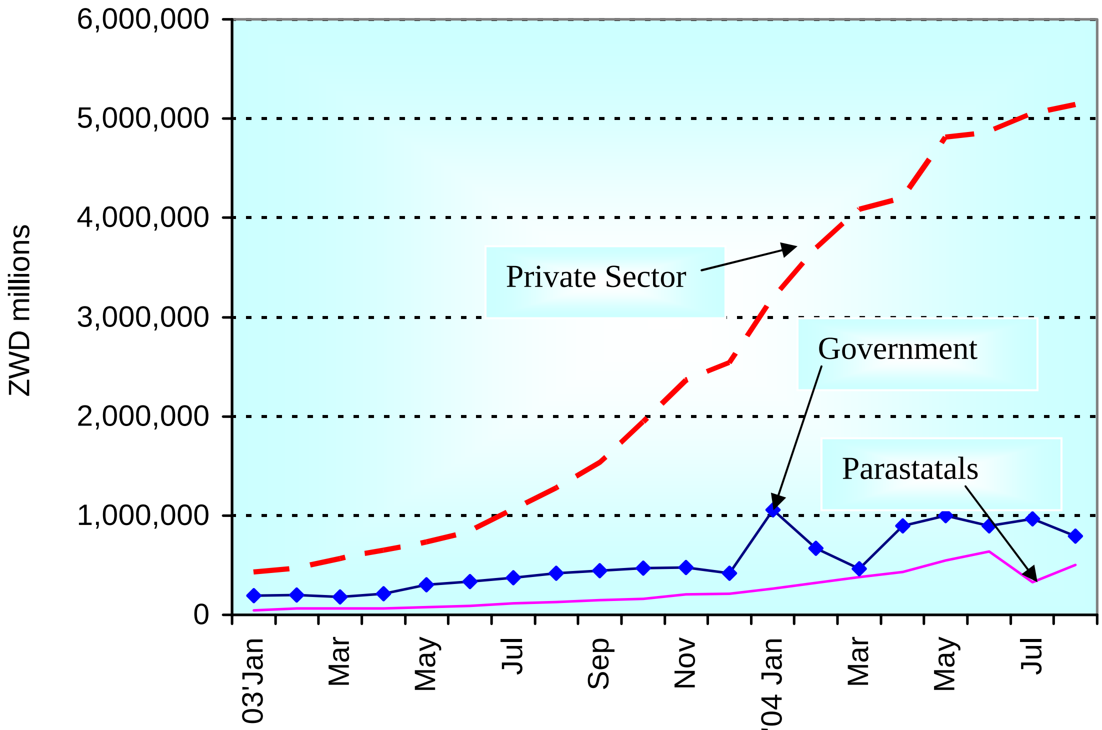



4.5 Growth in credit to the private sectors is now trending downwards on the back of slow down in the concessional financing disbursements, consistent with the objective of containing the facilities to manageable levels that do not militate against the anti-inflation drive.

4.6 Repayments on the concessional facilities, coupled with increased collections in respect of statutory reserves are also notable factors contributing to the slow down in domestic credit growth.

4.7 Government's maintenance of a positive cash balance on their Reserve Bank account over the January to October, 2004 period also played a significant role in reducing monetary expansion.

Sectoral Allocation of Domestic Credit (Z$m)

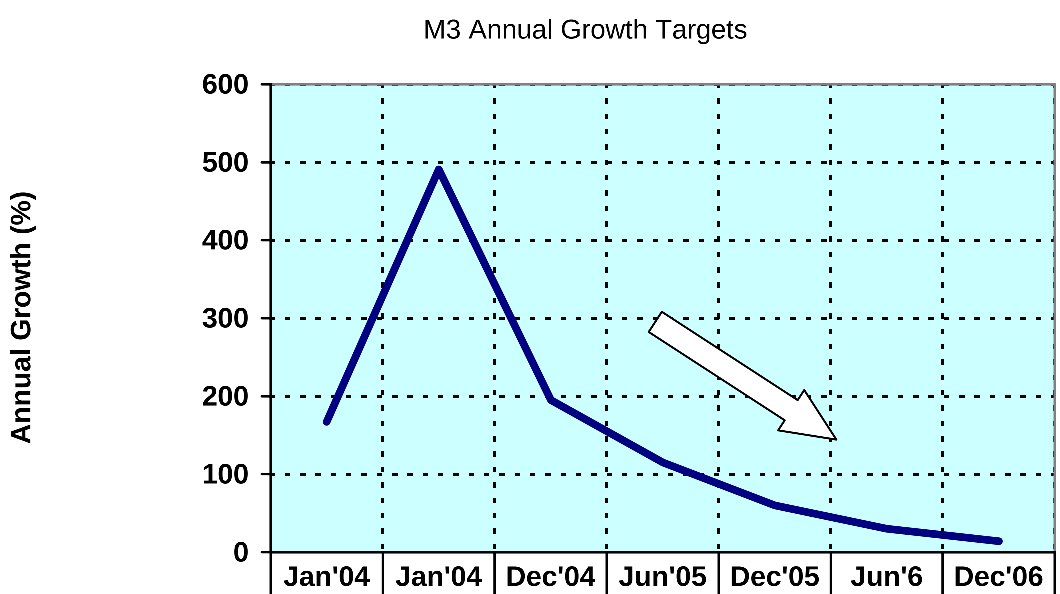


4.8 The private sector, thus, continues to command the biggest share of domestic credit, reflecting the overall importance the economy attaches to private sector as the engine for growth.

## Monetary Targets

4.9 Successful reduction of inflation to low and stable levels demands that over the medium to long-term, the country's money supply aggregates trend at levels that are consistent with real economic activity.

4.10 Consistent with this, as Monetary Authorities, we have set forth the following stringent targets for containment of money supply growth, necessary to support the disinflation program:



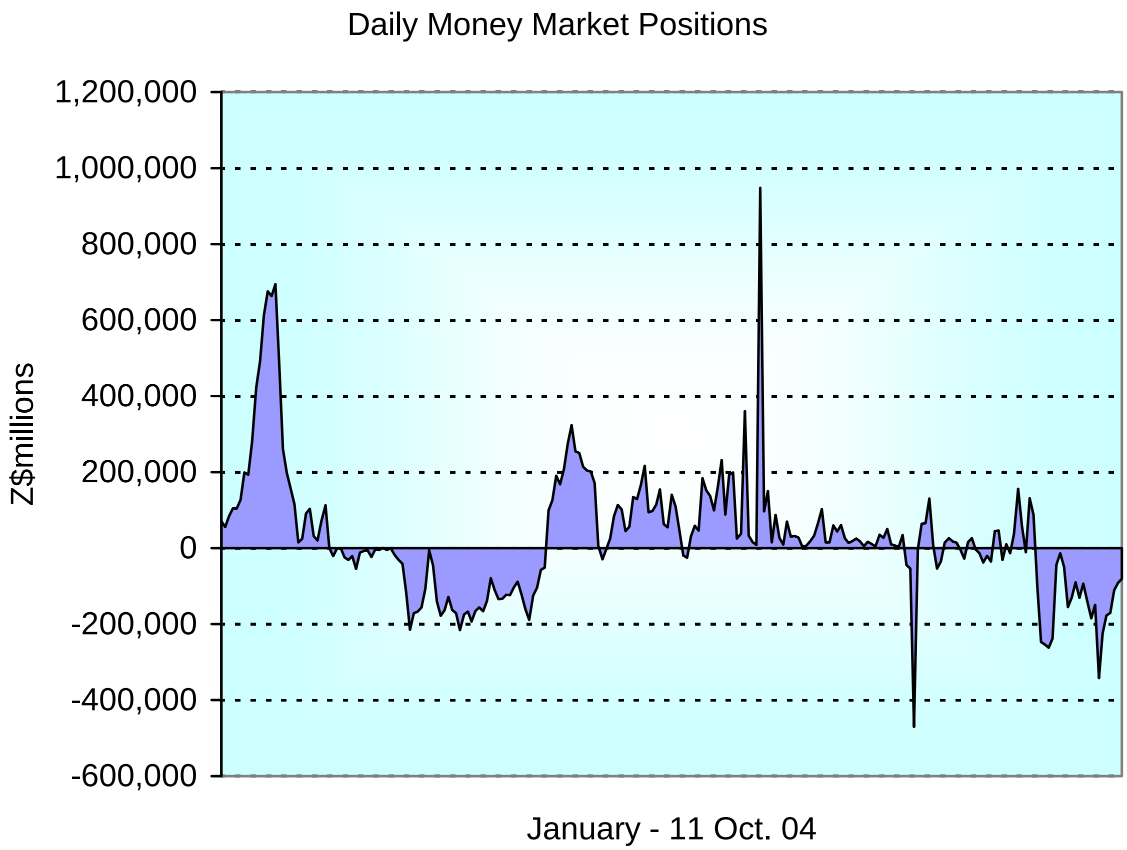

| | Jan'04 | Jan'04 | Dec'04 | Jun'05 | Dec'05 | Jun'6 | Dec'06 |
|---|---|---|---|---|---|---|---|
| M3 growth | 167 | 490.9 | 195 | 115 | 60 | 30 | 14 |

4.11 This tight framework is seen as key in propelling the economy back on track, and all efforts are being deployed to ensure that no excess liquidity lies astray in the market.

4.12 It is for this reason that banking institutions are implored to adeptly manage their funding positions, as errors in gauging liquidity gaps and their viable funding alternatives come with penal costs in short money market conditions.

4.13 An eclectic balance will continue to be struck in employing combinations of different financial instruments to manage money market liquidity conditions.

4.14 Within this framework, use of Treasury bills, special OMO bills, and special Treasury bills, as well as medium to long term stocks will ensure that market conditions remain tight.




**Statutory Reserves**

4.15 It has come to our attention that, once again, some banking institutions are reverting back to "creative accounting" practices to evade payment of statutory reserves.

4.16 One such dimension we have uncovered is the calculated temporary sweeping of current account balances into savings accounts, some of which are even imaginary, for purposes of lowering declared statutory reserves obligations, on the eve of due dates, only to reverse the entries post declaration.

4.17 The Bank can not stand by and let these unethical practices go unchecked.

4.18 The banking industry is advised that those who continue to elect to play outside the regulatory framework risk loosing their licenses, for such practices are the seeds and fuel for structural deficiencies which have the potency to contaminate the entire industry.

4.19 The troubled banks phenomenon we are currently fighting hard to address was a direct result of such underhand practices, and we can not afford yet another bout of mishaps in the country's financial sector.

4.20 We say no more.

**Bank Charges**

4.21 The Reserve Bank also wishes to call upon the Banking Industry to "put on a human face" when pegging their bank charges, which for some, have become an easy way to prey on defenseless customers.

4.22 As Monetary Authorities, we are receiving genuine concerns from desperate banking individuals and corporates who are falling victim to excessive charges at some banks.

4.23 The market should, therefore, self-correct as an industry, otherwise there will be no other option left for the Reserve Bank, short of prescribing benchmarks for bank charges to institutions. Every effort should be made to avoid any relapses back to prescribed pricing frameworks.

**Customer Investments**

4.24 Growth in the economy's savings culture forms a critical precondition for future investment growth, employment creation, growth in national production and, hence, multiplier effects to reduce poverty.

4.25 As a contribution to supporting savers, banks should ensure that customer investments are netted off total deposits for purposes of computing statutory reserves.

4.26 In coming to this decision, our main focus is to encourage banks to motivate customers to become habitual savers by offering them high returns on their incomes set aside for future use.

4.27 As Monetary Authorities, we wish to stress to banks that the supervisory and surveillance arm will be following closely to ensure that there is no repeat of creative accounting practices where some institutions would pass temporary book entries under the falsehood that they were customer investments, merely to manage down the true statutory reserves position.

4.28 It should be clear, therefore, that banks' investments for own book do not qualify for the offsetting framework under this new undertaking.

## Statutory Reserves Compliance and Reporting Frequency

4.29 With effect from 1 November, 2004, all banking institutions are required to comply with minimum statutory reserves requirements on a daily basis, with weekly returns documenting daily assessments of compliance being sent to the Reserve Bank for verification.

4.30 Operational modalities for this new requirement will be sent to the market in due course.

## Deposit Protection

4.31 As the Central Bank works to rebalance the financial sector, in line with the foregoing troubled banks resolution framework, greater focus is being put on strengthening the deposit protection system.

4.32 To relieve banks' premiums towards this initiative, banks are now allowed to exclude FCA balances from total liabilities **only** for purposes of computing deposit protection contributions.

4.33 This position has been taken to recognize the fact that FCA account balances are all lodged at the Central Bank.

## 5. INFLATION: DEVELOPMENTS AND TARGETS

5.1 As Monetary Authorities, we are deeply encouraged that considerable progress is being made on the fight against inflation, the country's declared enemy number one.

### Monthly Inflation

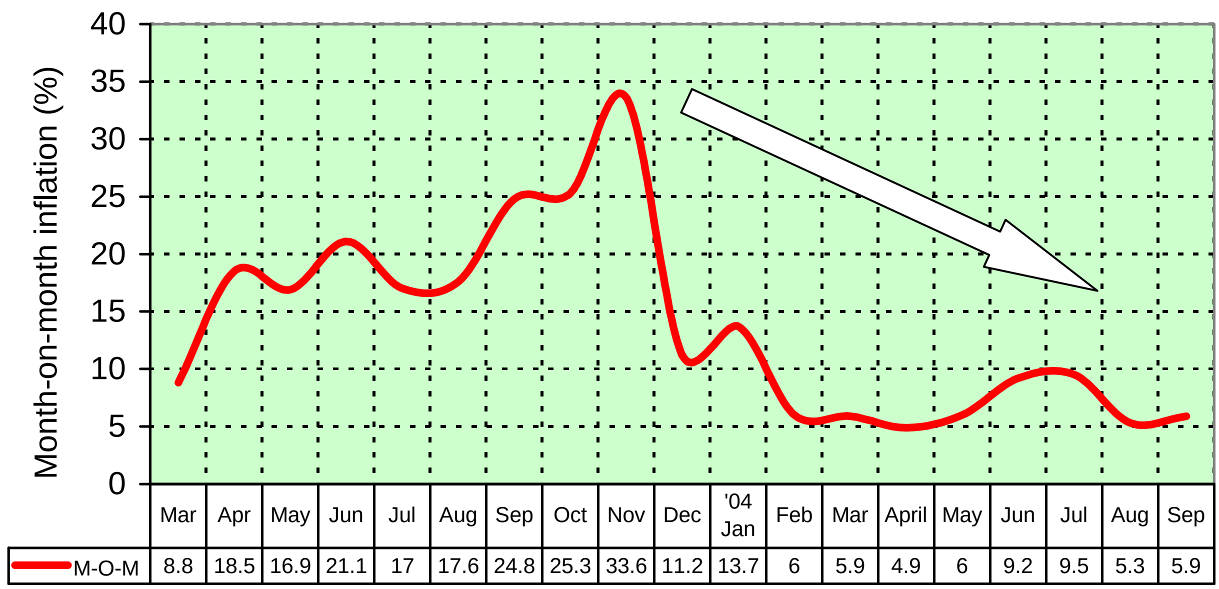
5.2 On a month to month basis inflation has declined significantly from a peak of 33.6% in November, 2003 to 5.25% in August 2004 before urging to 5.9% in September, 2004.

5.3 This marked progress is largely attributable to increased capacity utilization, tight money market conditions, economic agents' low inflation expectations, fiscal discipline, concessional cost of funds to producers, as well as the marked increase in foreign exchange inflows that are thawing down supply side rigidities in the economy.

5.4 It is imperative that the public understands that until and unless the country has zero inflation, which in itself may present challenges for achievement of vibrant economic activity, deceleration in the annual rate of inflation does not mean prices are falling. Rather, it entails that prices are still increasing but at a lower rate than previously experienced.

5.5The Reserve Bank encourages bodies, such as the Consumer Council, among others, to also educate the public on the interpretation and meaning of inflation trends.

**Month on Month Inflation Profile: January 2003 to September 2004**



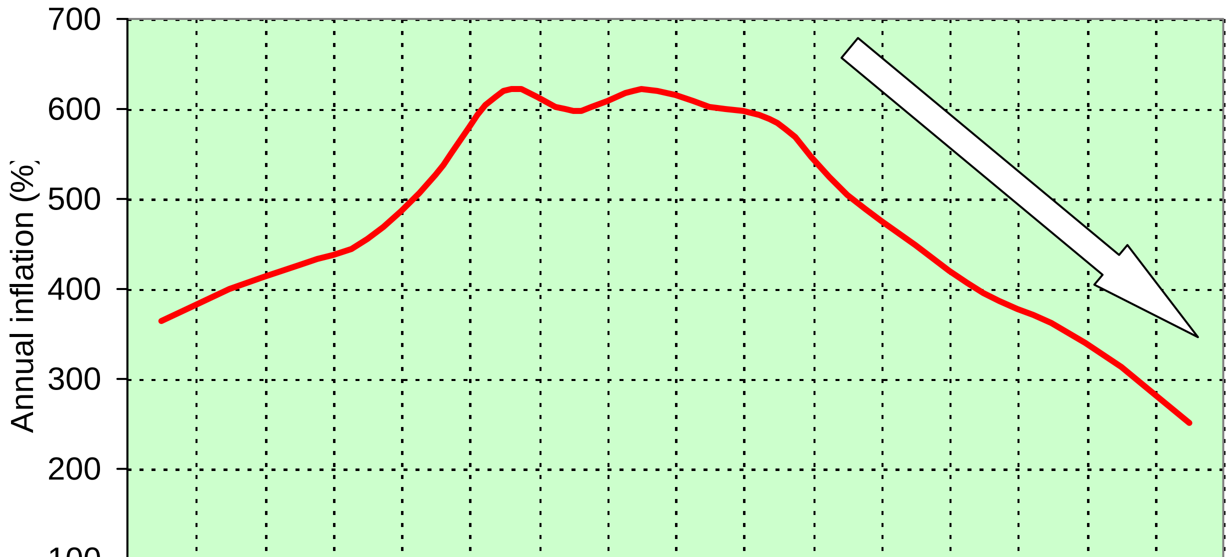

**Annual Inflation**

5.6The marked slow-down in monthly inflation has seen annual inflation sharply decline, from a peak of 622.8% in January, 2004, to 314.4% in August 2004 and further down to 251.5% in September, 2004.

5.7It is imperative that labor markets, manufacturers, retailers and service providers break away from static and backward-looking pricing frameworks and benchmark viability strategies on future rather than historical inflation trends.

5.8 Only through this way, can the anti-inflation efforts on the monetary and fiscal fronts be tangibly fortified.

**Annual Inflation Profile: June 2003-September, 2004**




| | '03 Jun | Jul | Aug | Sep | Oct | Nov | Dec | '04 Jan | Feb | Mar | Apr | May | Jun | July | Aug | Sep |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual | 365 | 400 | 427 | 456 | 526 | 620 | 599 | 623 | 603 | 584 | 505 | 449 | 395 | 363 | 314 | 251.5 |

5.9 Inflation, therefore, remains the economy's enemy number one, and every effort is being made to ensure that this venomous viper is eliminated from our operating environment.

## Inflation Targets and Forecasts

5.10 On 18 December, 2003, in my maiden Monetary Policy Statement, I announced a 2004 year-end inflation target of 200%, which was seen as a necessary initial step to trigger rapid progression towards macroeconomic stability.

5.11 The urgency of the turnaround agenda, marked by a deep desire to see the country's economy restored back on track as soon as possible, however, makes it critical that we redouble our anti-inflation efforts and raise the performance bar for quicker macroeconomic convergence.

5.12 Against this background, the Reserve Bank now estimates a **2004 year-end inflation outturn of between 150-160%,** against the original target of 200%, provided we do not become complacent.

5.13 Specifically, it is critical that the fiscal side remains vigilant to consolidate the disinflation gains made so far. This should be bolstered through:

(a). **containment of expenditure levels** to budgeted thresholds,

(b). avoidance of **supplementary budgets**; and

(c). avoiding awards of **unplanned benevolent or gratuity payments** that are unrelated to current production activities or real economic growth.

5.14 The targeted disinflation program over the medium to long term, thus should be followed vigorously through policy responsiveness and consistency.

5.15 Complementarity between fiscal and monetary policy initiatives is being stepped up to ensure that disinflation gains made so far are not reversed.

5.16 There are those who believe that the turnaround gains todate can be reversed by reckless policies. We need to prove them wrong as a Nation and we pledge to do our part in this regard.

5.17 Furthermore, foreign exchange parallel market activity will be vigorously kept in check, so as to minimize diversion of resources from priority sectors, and the attendant cost-push effects on inflation.

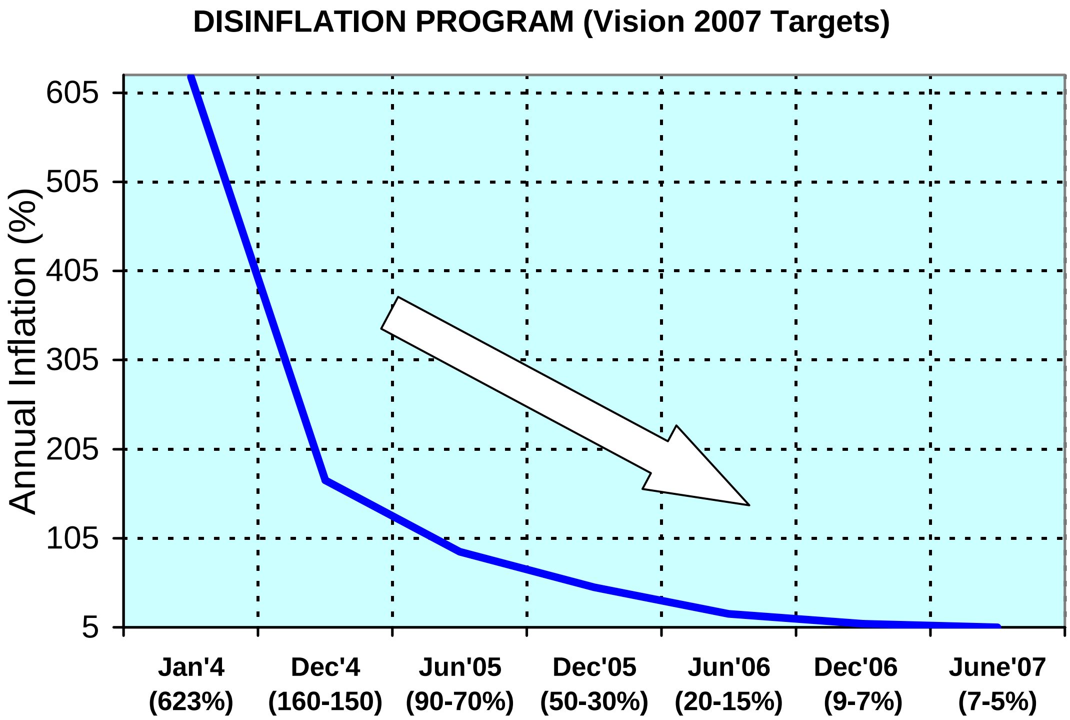
5.18 The single-digit inflation target by mid-2006 is achievable, provided that as a country, **we stay the course** of self-imposed reforms, which inevitably come with painful adjustments across all sectors of the economy.

5.19 **As we have again, repeatedly said: "no pain no gain."**

5.20 A business as usual approach will not deliver our cherished objective of a growing, low inflation and developing economy.

5.21 As your Central Bank, we are fully committed to ensuring that Zimbabwe meets the macroeconomic convergence obligations to which we have committed the country, under the SADC protocols.

5.22 Economic convergence with other SADC countries can only take place when we have reached par levels in as far as our macroeconomic fundamentals are concerned.




5.23 In line with our Vision 2007, this targeted inflation path is expected to expedite macroeconomic convergence and elimination of the transitory distortions currently prevailing in foreign exchange (exchange rate) and money markets (interest rates).

5.24 All economic engines are expected to focus and contribute towards these targets.

**CONSUMER PRICE INDEX (CPI) BASKET AND BASE-YEAR**

5.25 Considerable debate has been generated over the last quarter to do with the representativeness of the country's current CPI basket and its 1995 base year, and some of the arguments have gone so far as to cast doubt on the credibility of the Central Statistical Office's inflation numbers.

5.26 Peculiar however, is the silence that the same commentators maintained when they unquestioningly received and believed the country's inflation numbers as the trend was upwards, only to start throwing credibility concerns now when the spiral is now the other way round.

5.27 We hold no defense brief from the Central Statistical Office, which operates independently from anyone and ourselves, but we owe them (CSO) constructive criticism and support for continued consistency of the thought processes.

5.28 Indeed, it is common knowledge and standard the world over that base years for national accounts are revised often enough to capture **inter-temporal structural shifts** in economic variables.

5.29 Whilst there is no rule of thump or the "correct" periodicity of rebasing time series, periods of 5-10 years, particularly in transition economies are long enough to warrant reviews of baskets and base years.

5.30 Integrity and timeliness of economic data is **an indispensable requirement** for sound macroeconomic management, and as your Central Bank, we are working tirelessly, in consultation with the relevant Government Departments to ensure that the country's data base maintains the highest standards.

5.31 As we work towards **rapid macroeconomic convergence** over the next 12 to 18 months, we strongly call upon the relevant Authorities to make necessary provisions to enable the Central Statistical Office to carry out new runs of consumer expenditure surveys.

5.32 This would further strengthen policy analysis and economic management by capturing economic agents' post-turnaround **behavioral patterns.**

## 6. INTEREST RATES POLICY

6.1 As the country's inflation levels continue to decline, the motivation and need for the dual interest rate framework will effectively fall away, laying the foundation for speeded convergence between concessional and market interest rates.

6.2 Given our thrust of balancing efforts to fight inflation and generating a positive supply response in the economy's productive sectors, the following interest rates policy will be implemented, **with effect from 1 November, 2004.**

### Concessional Lending

6.3 The productive sector facilities will continue to be availed at the current rate of 50% per annum, so as to consolidate the positive gains these facilities are having in the economy.

6.4 To further support the turnaround program, all productive sector facilities are hereby extended for **final repayment to 30 June, 2005.**

6.5 The targeted deceleration of inflation is expected to ensure that market interest rates for other non-concessional lending continue to decline, providing further impetus to productive borrowing in the economy.

## Accommodation Policy

6.6 The Bank's **strict lender of last resort policy** will continue to be maintained, with liquidity support only being extended in exceptional cases, backed by rigorous motivations, explaining causes of liquidity mismatches and justifications of why support from the Central Bank would be needed.

**6.7 With effect from 1 November, 2004, the Bank's accommodation interest rate range would be revised downwards from the current levels of 189-199%, to 135-145%.**

6.8 This review is a realignment which seeks to recognize the deceleration in inflation, and the need **to maintain positive real interest rates, in compounded effective terms,** so as to remain vigilant on the anti-inflation drive.

**Intraday Facility**

6.9 The intraday, collateralized facility will remain in place as introduced in the last quarter.

6.10 The banking industry should please note that this facility is not meant to create a valve for “free” money to allow for “intra-day” speculative trading.

6.11 Rather, the facility is meant to smoothen transactions flow under the electronic real-time payments system by minimizing unnecessary grid-locks in the network.

6.12 Access to the intra-day facility will, therefore, be under strict terms and conditions which, if breached, automatically trigger swift corrective measures to be taken at the discretion of the Reserve Bank.

**Market Rates**

6.13 We would like to remind the banking industry and reinstate Monetary Authorities’ prescribed market interest rate framework which requires that non-concessional lending interest rates trend at **positive real rates of 10-20% above inflation**, on an **effective compounded** annual basis.

6.14 Leadership in the industry is, therefore, once again called upon to self-introspect and ensure that their institutions show a human face and comply with these interest rate guidelines.

6.15 Practices of preying on the desperate and vulnerable borrowing public will not be allowed to go unchecked, as they directly militate against the economic recovery program.

## 7. NATIONAL PAYMENTS SYSTEM AND CURRENCY MANAGEMENT

7.1 As a follow up to the commitment we made to the banking industry and the public in January, 2004, on the Zimbabwe Electronic Transfer and Settlement System (ZETSS) connectivity to **non-commercial bank institutions,** we are pleased to report that 16 additional participants have been connected with effect from 25 October, 2004.

7.2 These additional institutions that are now part of the electronic transfer and settlement system are:

(a). African Banking Corporation Ltd
(b). Beverly Building Society Ltd
(c). Central African Building Society Ltd
(d). CFX Merchant Bank Ltd
(e). Genesis Investment Bank Ltd
(f). Highveld Financial Services Ltd

(g). Interfin Merchant Bank Limited Ltd

(h). Intermarket Building Society Ltd

(i). MBCA Bank Limited

(j). National Discount House Ltd

(k). Peoples Own Savings Bank (POSB)

(l). Premier Discount House Ltd

(m). Renaissance Merchant Bank Ltd

(n). Tetrad Securities Ltd

(o). ZDB Financial Services Ltd

(p). Agricultural Bank of Zimbabwe Limited

7.3 This development marks a significant improvement in the country's payments and settlements system. Apart from increasing the ZETSS utilization level, the new framework will go a long way towards addressing the challenges that were faced by these institutions under the sponsorship arrangement, where they needed to go through a commercial bank in order to effect payments and transfers through the electronic system.

7.4 Furthermore, it is hoped that payment systems efficiencies will result from the anticipated reduction of risk that is inherent in the cheque payment stream.

7.5 Banks, particularly those who were bankers to the 16 institutions that have just been brought onto the electronic system and are now settling in their own right, should be more vigilant in managing their own liquidity positions.

7.6 To further enhance ZETSS utilization levels, aggressive education and awareness campaigns will be conducted countrywide.

7.7 Corporates with a high usage of high-valued cheques are encouraged to use the ZETSS as an alternative means of payment, which gives immediate value, and hence speeds up economic transactions.

7.8 To complement the Central Bank's efforts in the modernization of the payments system, individual banks should embark on strategies to introduce straight through processing (STP) – which will ensure that transactions are processed from one customer point to the end, with minimal human intervention.

7.9 Banks will be required to collateralize their daily Clearing House obligations, so as to ensure that these obligations are adequately covered for unforeseen eventualities in the settle cycle.

7.10 The current collateral deposit formula, which has proved to be inadequate in some instances, will be reviewed, so that it fully covers the inherent clearing risks in the system.

7.11 To increase operational efficiency and minimize risks associated with the deferred net settlement system in the Clearing House, same day clearing and settlement will be introduced with effect from 1 November, 2004.

7.12 In order to reduce the cheque clearing cycle and the attendant risks, as well as to facilitate same day clearing and settlement, the Bank will be rolling out Clearing Houses in Mutare, Gweru and Masvingo, effective 1 November, 2004.

7.13 This development will shorten the cheque clearing period in these respective centers to four (4) days for commercial banks, and seven (7) days for building societies and POSB, from the current 7 days, and 12 days, respectively.

**ZIMBABWE DOLLAR CURRENCY MANAGEMENT**

7.14 As Monetary Authorities, we would like to, once again, reassure the financial sector and the general public that the Reserve Bank has developed systems and programs that ensure that the country has adequate local currency supplies to meet demand.

7.15 Available resources at hand – currency and bearer cheques, as well as raw material stocks – are adequate to meet all market requirements for cash well into year 2006.

7.16 There is, therefore, absolutely no need to panic, as we are committed to ensuring that the country never gets back to the local currency crisis levels experienced in 2003.

**7.17 Banking institutions are encouraged to streamline their cash distribution systems to ensure that the banking public and**

**corporates are not inconvenienced, especially as we approach the festive season.**

7.18 The Central Bank's decentralization into other urban centers across the country will also provide agility of Monetary Authorities to monitor adequacy of banks' branch network operations, including effectiveness of cash distribution systems.

## BEARER CHEQUES

**7.19** As Monetary Authorities, we also wish to announce that **the lifespan of bearer cheques has been extended to December, 2005, after which point the country's payments system will revert back to a 100% currency system.**

7.20 Design and production work is already in progress to ensure a smooth phasing out of the bearer cheques, replacing them by currency notes.

## 8. EXCHNGE RATE MANAGEMENT

8.1 Management of the country's exchange rate forms part of the important avenues through which the macro-economy is being addressed.

8.2 The controlled foreign exchange auction system, which became operational since 12 January, 2004, is targeted to remain in place over the foreseeable future, as this has helped bring considerable discipline and order in the foreign exchange market.

8.3 Right from inception of the auction system, as Monetary Authorities, we fully acknowledged and explained why as part of the macro-economic stabilization phase, we had to adopt the controlled auction system as a transitory measure.

8.4 We also underscored to the market that the auction **would be controlled only to the extent of prioritizing beneficial payments, without manipulation of the exchange rate itself.**

8.5 To this effect, the Reserve Bank has invited members of the public, including representatives of the diplomatic community, captains of industry and many other stakeholders to attend the weekly auctions to observe and attest the reality of what transpires under this framework.

8.6 We are pleased that over 200 visitors have to date participated in the foreign exchange auctions, and it is our fervent hope that these are being our ambassadors for spelling out the truth and dispelling the myths that have been fabricated against the system.

8.7 Largely influencing our gradual approach to exchange rate management is the high import-dependency of the country's productive systems, which compels that we adopt a more calculated and cautious approach.

8.8 Overnight adjustment to levels as would be dictated by the underlying demand and supply conditions, while ideal, from a free market point of view, would have catastrophic effects on imported inflation, further undermining the recovery gains registered so far.

**THE PURCHASING POWER PARITY (PPP) ARGUMENT**

8.9 As your Central Bank, we are vividly aware of the need to compensate exporters for cost-effects of rising domestic inflation relative to trading partner inflation developments, so as to maintain competitiveness in global markets.

8.10 It is for this reason that we are balancing out the gradual approach on the exchange rate front by supportive export incentives that directly have the effect of lowering the cost base or raising effective revenues for exporters.

8.11 Such incentives include:

(a). Provision of concessional financing to exporters, among other producers.

(b). Extension of the 15% tax credit on the FOB value of shipped exports, under the modified duty draw back system.

(c). Issuance of memorandum of deposits (MOD) against confirmed export orders which unlocks competitively priced working capital.

(d). Allowance for exporters to issue post-shipment foreign exchange denominated bonds, which effectively boosts revenue inflows, as the exporter realizes a performing asset immediately after exporting.

(e). Support prices for gold, tobacco and cotton.

(f). Retention of export proceeds in FCAs under the carrot and stick framework.

(g). The 20% on FOB of exports, for the clothing and textiles sector to compensate for non-access to the USA's AGOA incentive.

8.12 Efforts to deliberately ignore the positive impact of all these incentives by exporters in the debate on competitiveness can only be an act of **convenient concealment** of facts for purposes of clinging to preconceived ideologies.

8.13 We must, as exporters, avoid the temptation to entrench "the culture of mourning" in our daily morning prayers as it is not our intention to substitute the need for companies to plan effectively for their survival in the jungle of business.

8.14 That said, however, as your Central Bank, we remain alert to cases of genuine difficulties which require our ad hoc interventions to ensure viability and we commit our efforts in this direction.

**DIASPORA FLOOR PRICE**

8.15 In order to further promote foreign currency remittances, under the Homelink initiative, the diaspora floor price of foreign exchange **will be managed between the current Auction rate of around Z$5 600/US$ and Z$6 200 per US dollar, to 31 January, 2005.**

8.16 This relaxation should be viewed in the spirit of Christmas, which is traditionally a period of giving and magnanimity.

8.17 After 31 January, 2005, it is expected that the country's foreign exchange situation will have further improved significantly in response to export support measures being implemented since December, 2003.

8.18 This, coupled with the targeted deceleration of inflation **is expected to arrest further pressures in the foreign exchange market.**

8.19 As a **high-import dependent country, we do not want to entrench a general market expectation that each time the Central Bank reviews its Monetary Policy, the diaspora floor price will be reviewed upwards.**

8.20 We, therefore, wish to **strongly** point out that the current moderate relaxation in the diaspora rate **is not an invitation for the auction bids to leap and follow suite.**

8.21 Importers are advised that operations of the Foreign Exchange Auction will continue as per current arrangements.

8.22 The Bank has, also noted with concern, attempts by some importers to submit multiple bids for the same invoices, through self-proclaimed foreign exchange "agents" and multiple banking channels.

8.23 Such practices will not be tolerated as they, not only slow down the processing of bids at the Auction, but also distort the true picture of demand in the foreign exchange market.

## MIRAGE OF PARALLEL MARKET TRADING

8.24 As your Central Bank, we have also come to realize that some members of the public, including some corporates, in their bid to earn "windfall" gains for no productivity at all, have also added the dimension of trading counterfeit notes purporting them to be foreign currency.

8.25 Many of our people have fallen victim to these unscrupulous players bent on causing continued stress in our socio-economic systems.

8.26 Areas where this practice has been tangibly uncovered include Victoria Falls, Kariba, Masvingo, Bulawayo and Road Port in Harare, Beitbridge, Plumtree Border Post and Mutare.

8.27 This discovery has fortified our resolve to fight the parallel market and its vices through every means possible.

8.28 As Monetary Authorities we also wish to remind the public that no sane Central Bank can benchmark its policies on indicators and prices that are largely derived from the trading of fake notes, and your Governor can personally attest to the existence of these fake notes from my reported disguised visits to some of these places.

8.29 Benchmarking our National currency on the back of a currency market which is trading in predominantly fake notes would be tantamount to chasing the wind.

8.30 As your Central Bank, we are in consultations with the Authorities to ensure that **regulatory provisions around parallel market dealing are tightened further.**

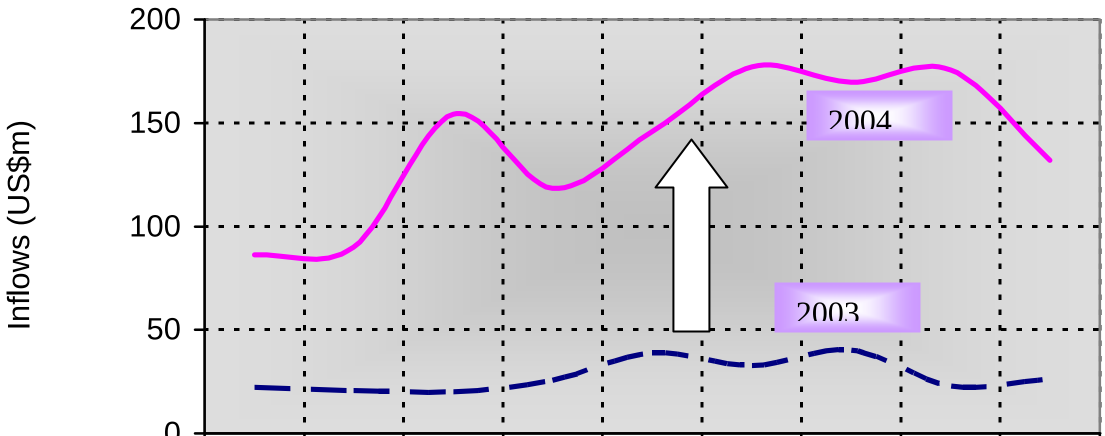
## 9. FOREIGN EXCHANGE GENERATION

### Formal Foreign Exchange Inflows

9.1 The first nine months of 2004 have seen foreign exchange inflows into the official market amounting to US$ 1.249 billion, compared to a total of only US$250.1 million for the same period in 2003.

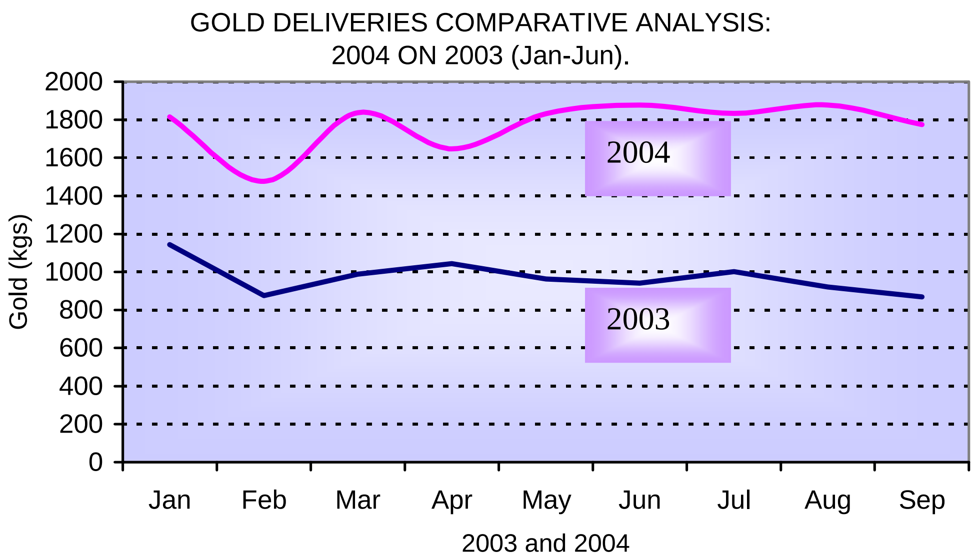
9.2 This represents a 399.4% growth in inflows over the comparative nine months to end of September, 2004.

**FORMAL FOREIGN EXCHANGE INFLOWS:
JAN-SEPT (2003 & 2004) -US$m**




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep |
|---|---|---|---|---|---|---|---|---|---|
| '2003 | 22.3 | 20.8 | 20.0 | 25.7 | 39.0 | 32.9 | 40.3 | 22.9 | 26.2 |
| '2004 | 86.23 | 89.84 | 154.1 | 118.4 | 145.8 | 177.2 | 169.6 | 175.7 | 132.1 |

9.3 The growth in foreign exchange inflows has been enhanced by significant gold deliveries, which saw cumulative gold sales reaching US$210.7 million by the end of September, 2004, compared to US$ 117.7 million for the same period in 2003. This represents a growth rate of 79% in foreign currency terms.




9.4 Gold deliveries for the first nine months of 2004 were 15.9 tonnes, compared to 8.7 tonnes for the same period in 2003, which is an increase of 82.76%.

9.5 Through to year-end, the 2004 gold deliveries are expected to be around 22 tonnes, compared to the 12 tonnes recorded in 2003. We remain optimistic that these target delivery levels will be attained.

## SOURCES AND APPLICATION OF FOREIGN EXCHANGE FUNDS

### Summary of Inflows (USD m)

| | Cumulative 1 Jan 03 to 31 Dec 03 | 1st Quarter 2004 | 2nd Quarter 2004 | 3rd Quarter 2004 | Cum. 1 Jan 04 to 30 Sep 04 |
|---|---|---|---|---|---|
| Corporate/Auction Inflows* | **40.2** | 192.4 | 269.1 | 342.5 | **804.0** |
| Tobacco | **45.9** | 0.3 | 24.3 | 24.6 | **49.2** |
| Tobacco facility | **24.1** | 0.0 | 14.5 | 8.9 | **23.4** |
| MTAs/Diaspora** | **--** | 0.0 | 23.9 | 15.6 | **39.5** |
| Surrender to Gvt | **5.1** | 45.3 | 50.8 | 25.7 | **121.8** |
| Gold Sales | **152.3** | 67.9 | 73.3 | 69.5 | **210.7** |
| Other | **58.2** | 24.3 | 0.0 | 0.0 | **24.3** |
| Total | **301.7** | **330.2** | **441.4** | **477.7** | **1 249.5** |

**Notes:**

*Amounts reflect inflows from companies who are now on the Auction System with effect from January, 2004.

** Money Transfer Agencies (MTAs) were introduced in 2004.

**Summary of Outflows (USD m)**

| | Cumulative 1 Jan 03 to 31 Dec 03 | 1st Quarter 2004 | 2nd Quarter 2004 | 3rd Quarter 2004 | Cum. 1 Jan 04 to 30 Sep 04 |
|---|---|---|---|---|---|
| Corporates/ Auction Payments.* | **49.7** | 159.6 | 207.0 | 240.1 | **606.7** |
| Gvt Payments | **63.4** | 28.8 | 64.6 | 76.0 | **169.4** |
| IMF/WB/ADB** | **--** | 6.0 | 3.0 | 7.5 | **16.5** |
| NOCZIM | **37.0** | 6.0 | 45.8 | 58.0 | **109.8** |
| ZESA | **6.8** | 1.6 | 21.0 | 35.4 | **58.0** |
| Afreximbank | **52.3** | 32.6 | 32.8 | 19.0 | **84.4** |
| Gold Producers | **35.4** | 15.8 | 8.9 | 8.2 | **32.9** |
| Other Bilateral Debts Payments | **14.3** | 9.9 | 16.2 | 15.0 | **41.1** |
| Total | **258.9** | **260.3** | **399.3** | **459.2** | **1 118.8** |

**Notes:** * payments largely reflect access to foreign exchange on the Auction System by corporates to import inputs, fuel, machinery, chemicals, and other essentials.

** IMF: International Monetary Fund; WB: The World Bank; ADB: African Development Bank.

## MEASURES TO SUPPORT EXPORTERS

### Enhanced Carrot and Stick Export Retention Scheme

9.6 Maintenance and preservation of export viability remains one of the central pillars of the turnaround program.

9.7 Consistent with this, as Monetary Authorities, in close consultation with Government, we continue to seek progressive adjustments in policy that shore up returns to the export sector.

9.8 During my maiden Monetary Policy Statement in December, 2003, the Bank made it explicit that tireless efforts would be made to eradicate the temporary distortions in foreign exchange and money markets.

9.9 These distortions, which were deliberately introduced to strike a delicate balance between efficiency norms and protection of vulnerable social sectors, **will not be entrenched as a permanent feature or a desirable component of our medium to long term policy framework.**

9.10 In recognition of the need to sustain export recovery, the carrot and stick export retention scheme has been enhanced by **further reducing the foreign exchange surrender requirements at the Z$824/US dollar rate.**

**Carrot and Stick Export Retention Scheme: ENHANCED (Excluding Horticulture: [Effective 1 November 2004]**

| Form CD1, TR1, TR2, CD3 Acquittal Period (Days) | FCAs Retention (%) | Sold to RBZ @ Use (at Z$824/US$) (%) | Sold to (At ruling Auction rate)(%) |
|---|---|---|---|
| Prepayments | 80 (80) | 0 (0) | 20 (20) |
| 1-30 | 75 (75) | 0 (0) | 25 (25) |
| 31-60 | 70 (70) | 10 (15) | 20 (15) |
| 61-90 | 60 (60) | 10 (15) | 30 (25) |

**Exchange Control Approved Extensions: [Effective 1 November 2004]**

| | | | |
|---|---|---|---|
| 91-100 | 50 (50) | 15 (20) | 35 (30) |
| 101-120 | 40 (40) | 20 (25) | 40 (35) |
| 121 and above | 20 (20) | 20 (25) | 55 (55) |

**Note:** (-) Old retention/surrender/sell levels to 31 October, 2004. Outside brackets denotes new levels effective 1 November, 2004.

9.11 It is imperative that exporters recognize that this framework entails the following:

(a). Early repatriation of export proceeds within 30 days in effect means that exporters **would not have to sell any of their foreign currency at Z$824/US$.**

(b). Compared to the levels that prevailed at the beginning of 2004, the surrender requirement at Z$824/US$ has **fallen from 25% to 10%** for **all** export proceeds repatriated within **31-90 days** from date of shipment, and a majority fall under this category. Up to December, 2003, the surrender requirement was 40% at Z$55/US$ for Government requirements.

9.12 As directed by His Excellency the President in his State of the Nation Address to Parliament on 2 December, 2003, further progression towards **convergence** is targeted, as the foreign exchange situation maintains its recovery path, until our economy is “served by one exchange and interest rate regime without distortions”.

**Carrot and Stick Framework for Horticulture**

9.13 In the Monetary Policy Review Statement for the first half of this year, the importance of horticulture as a foreign exchange generator was amplified.

9.14 As Monetary Authorities, we wish to applaud the horticultural sector for their continued sterling efforts.

9.15 Consistent with the new carrot and stick structure implemented for other exporters, the Bank is pleased to unveil an enhanced framework for horticulture exports.

**CARROT AND STICK FRAMEWORK FOR HORTICULTURE:**

**[Effective 1 November, 2004]**

| Form CD1 Acquittal Period (Days) | FCAs Retention (%) | Sold to RBZ @ Use (at Z$824/US$) (%) | Sold to (At ruling Auction rate) (%) |
|---|---|---|---|
| 0-10 | 80 (80) | 0 | 20 (20) |
| 11-14 | 75 (75) | 0 | 25 (25) |
| 15-21 | 60 (60) | 0 | 40 (40) |

**Exchange Control Approved Extensions: [to 21 October 2004]**

| | | | |
|---|---|---|---|
| 22-30 | 40 (40) | 10 (15) | 50 (45) |
| 31-60 | 20 (20) | 15 (25) | 65 (55) |

**Note:** (-) Old retention/surrender/sell levels to 31 October, 2004. Outside brackets denotes new levels effective 1 November, 2004.

9.16 The benefits of our enhancement are obvious, and exporters should take full advantage of them.

**DISCHARGE OF FORMS CD1s, TR1, AND CD3**

9.17 In giving these dispensations to exporters, we expect reciprocity through compliance with standing Exchange Control Regulations, as well as commitments to enhance foreign exchange generation.

9.18 It has, however, come to the Reserve Bank's attention that some exporters are flouting standing procedures for the discharge of forms CD1, TR1 and CD3.

9.19 In some cases, after shipment of goods, some exporters have been caught attempting to cheat the system through false cancellation of their CD1s, under falsehoods that export orders were cancelled.

9.20 Unfortunately, for them, the new electronic system, the CEPECS module, clearly indicates to the Reserve Bank which exports are outstanding for remittance, as well as up to due dates for FCA liquidation.

9.21 The Reserve Bank, in close cooperation with ZIMRA is intensifying the tracking framework to ensure that no exports will cross the borders without following proper declaration procedures.

9.22 In line with this redoubled thrust, heavy penalties will be imposed on those exporters who refuse to take heed and comply.

9.23 As Monetary Authorities, we also wish to strongly urge Authorized Dealers to educate their clients on proper procedures, for when in default, equal responsibility will be placed on the financial institutions in question as well as their errant clients.

## 10. PLATINUM INDUSRY

10.1 The Platinum Industry has, for a long time remained a **"black-box"**, , shrouded by an intricate web of processing and marketing agreements that, **to this date**, are not quite comprehensible to many in both the public and official domains.

10.2 Increasingly, however, the **international community**, including the World Bank, is calling for greater transparency and accountability in the exploitation and usage of revenues from extractive industries, be they oil industries, mining operations and plantations, among others.

10.3 A key feature that is the main driving force for this new thrust is that activities in the extractive industries should yield maximum benefits, not only to the investors who must be looked after well, but also to the country concerned, its peoples and ultimately, the local communities.

10.4 From page 4 of the review document titled: **"Striking a Better Balance: The World Bank Group and Extractive Industries: The Final Report of the Extractive Industries Review" (September 17, 2004) under the Extractive Industries Transparency Initiative (EITI) policy framework**, considerable print space was devoted to encouraging Governments to better account for revenue receipts from the extractive industries and **that relevant terms of key agreements be publicly available** and that the **local communities (population) ought to benefit from such extractive industries.**

10.5 As Monetary Authorities, **we fully subscribe** to these initiatives and **totally embrace** them, as there is no any better way to optimize natural resource use in a sustainable way that balances the virtues of economic growth, empowerment of locals, development and protection of the environment.

10.6 In agreeing to embrace these initiatives towards greater accountability and transparency in natural resource usage, top on our priorities list, as Monetary Authorities, is equally **the unwavering need to protect the interests of investors in the extractive industries,** by ensuring that:

**(a). Mining operations are not disrupted;**

**(b). Investors get viable returns on their investments, through supportive Exchange Control regulations, that allow dividend remittance; and**

**(c). Investors are not, at any point, dispossessed of their investments.**

10.7 Platinum forms one of Zimbabwe's top strategic minerals, with geological assessments indicating that the country has the second largest reserves of this valuable mineral in the world, after South Africa.

10.8 In value terms, platinum has long overtaken gold, underpinned by the multiplicity of uses of this mineral, which include:

(a). Jewellery fabrication,

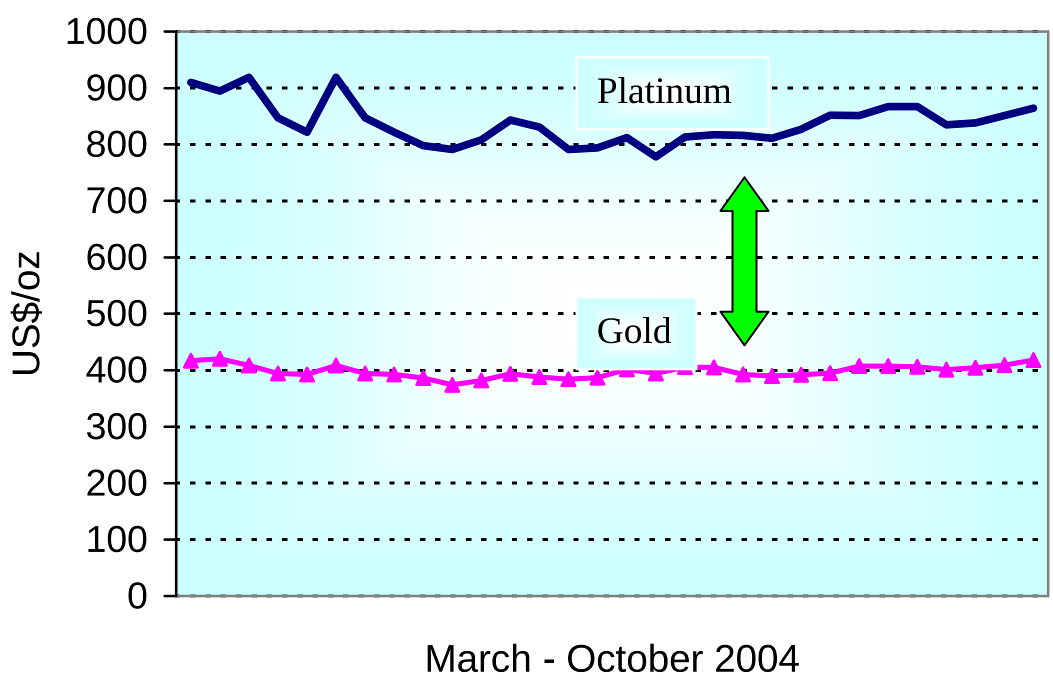
(b) Auto catalyst - it is widely used as an anti pollution device in diesel engines.

(c) It is used as a catalyst for bulk chemicals manufacture.

(d) Dental alloys and automotive applications.

(e) Platinum is an essential component of the magnetic alloys used in computer hard disks.

**Comparative Prices: Gold Vs Platinum.**




10.9 Platinum mining is also strategic in that typically, the extraction process produces an additional array of other valuable minerals as bi-products, which include gold, rhodium, palladium, and many others.

10.10 In order to fully account for the total foreign reserves emanating from platinum mining, the Reserve Bank has, in consultation with Government, and investors in the Platinum Industry, seen it **desirable to recognize and accord platinum the "strategic metal" status like gold, meaning that special support will be given to investors in the industry.**

10.11 As Monetary Authorities, we are pleased to report that fruitful and cordial discussions are being held between the Reserve Bank, investors in the Platinum Industry, and Government, with a view to finalizing the **Enhanced Platinum Sector Regime (EPSR), which will come into effect on 1 February, 2005.**

10.12 Under this new regime, the following structures will apply:

(a). The Reserve Bank has, **with the approval of Government, assumed responsibility, as is the case with gold trading, for the handling of all trading in the platinum group of metals (PMGs), under a viable structure to be set up in close consultation with players in the platinum industry, to take into account peculiarities in platinum production and marketing.**

(b). MMCZ will assume an advisory role to support the Reserve Bank on a need basis in terms of marketing arrangements.

(c). Platinum producers will be required to open **special local FCAs** in which all proceeds will be deposited, under a structure that would ensure smooth transition from the prevailing offshore accounts arrangement.

10.13 The operational modalities for this new dispensation, **whose main focus is to ensure greater transparency and accountability** in the platinum industry as **a strategic resource,** will be unveiled to the platinum industry and the public in due course.

10.14 Once again, we are pleased to advise the Nation that we have been engaged in discussions with the Platinum Industry and that as the Reserve Bank, we have come to understand fairly well the intricacies involved in the sector, which intricacies were not fully explained and clear to other stakeholders, and inadvertently not explicit to Government.

10.15 As your Central Bank, we will take an active interest in all joint ventures and empowerment programs involving the mining sector to ensure fairness of play, transparency and proper accountability of all activities in the mining sector.

10.16 The Authorities have, as we also hereby do, committed themselves to empowerment without dispossessing investors of their investments.

10.17 Rather, the pinnacle of the turnaround program is on encouragement of value for money joint ventures between existing shareholders and locals, as well as other new investors.

10.18 These measures must not be misconstrued to mean that the country is moving towards chaos in the mining sector or triggering a free for all approach to indigenization and empowerment.

**Platinum Industry Investment Support**

10.19 In order to further strengthen the platinum industry, the Reserve Bank, in close consultation with Government, is pleased to announce that a platinum industry investment promotion program has been put in place.

10.20 Under this initiative, both local and foreign investors wishing to enter into platinum production, or expand existing operations will receive financial support on a project by project basis.

10.21 The Ministry of Mines and Mineral Development is also working on a revised framework on mining rights that seeks to ensure that the country gets optimal value from the known platinum reserves.

10.22 Investors are also encouraged to enter into platinum refinery, as this is certainly a strategic venture, given the positive prospects in the industry, buoyed by the country's immense reserves that remain untapped.

10.23 I wish to reiterate that as Monetary Authorities, we will not tire in our efforts to ensure that **investors' interests are protected and supported** through the necessary legal, regulatory, marketing and financial arrangements.

## 11. GOLD SUPPORT PRICE

11.1 As Monetary Authorities, we wish to express immense gratitude to the gold industry for the phenomenal positive response they are giving to the various support measures extended to this critical sector.

11.2 Gold continues to occupy the unique strategic importance, given its automatic qualification as a reserve asset, once mined and purified.

11.3 It is for this reason that the policy framework will continue to be reviewed to ensure a quick turnaround in the country's gold production.

11.4 Consistent with this, the gold support price has been, **with immediate effect, adjusted to Z$92 000 per gram.**

11.5 This support price will continue to apply for both large-scale and small-scale producers.

11.6 For those producers wishing to retain some of their produce in FCAs, the following framework, under the revised carrot and stick model, shall apply:

(a). 40% is sold into foreign currency at prevailing international gold prices, and retained in FCAs.

(b). 50% is sold on delivery at the going gold support price; and

(c). 10% is sold on delivery at Z$824/US$ to go towards Government's priority social sectors and other strategic National needs.

11.7 The Reserve Bank has also created a revolving fund to ensure adequate funding for gold purchasing agents that are operating across the country's major gold producing centers.

11.8 The industry is encouraged to take full advantage of this vehicle and to contact Fidelity Printers and Refiners for details of this facility.

## 12. THE HOMELINK INITIATIVE

12.1 The Homelink initiative continues to gather momentum, with the program gaining significant interest from fellow Zimbabweans living abroad.

12.2 There have been attempts by some of our critics to politicize a non-political economic thrust which has become a normal phenomenon the world over.

12.3 Such forgivable political extrapolations have largely been a result of what we sincerely believe to be grave misconceptions on what Homelink is all about.

12.4 As Monetary Authorities, we remain committed at ensuring that, no amount of badmouthings or obstructive inferences succeed in side-tracking us in what we firmly believe to be good for the present and future wellbeing of our Great Nation, and its people – at home and abroad.

12.5 Under the Homelink initiative, the central thesis is to ensure that fellow Zimbabweans leaving abroad get the opportunity to invest in their home economy, taking advantage of the vastly better returns on offer, and other supportive measures being implemented.

12.6 Among the main opportunities offered under the Homelink drive are:

(a). Schemes for non-resident Zimbabweans to buy or build residential houses through well structured installment facilities.

(b). Investment in money and capital markets through various vehicles, including the recently launched foreign exchange bond, which yields attractive returns that are remittable to the investors in foreign currency on maturity.

(c). Access to various ancillary services, such as funeral assurance, payments for holiday packages for loved ones back home, and premium payments for medical cover, inter alia.

(d). Vehicle for safe, reliable, and prompt transfer of money to loved ones and businesses back home.

12.7 Equally important, the Homelink theme seeks to ensure that our financial system is free of laundered money, which in most instances, has been proven to be fertile ground for terrorist activities against humanity.

12.8 As Monetary Authorities, we are heartened and pleased to note that in general, Zimbabweans living abroad are gaining confidence in the Homelink facility, as reflected by the high traffic of investment proposals the Bank is now receiving.

12.9 In terms of funds transfer, commendable progress has also been made, with the facility handling around US$40 million since its inception in May, 2004.

12.10 The Bank wishes to extend immense gratitude to members of the international community who are seeing value and sincerity of our inclusive and modest efforts to turnaround the economy, and who are supporting the Homelink program in various forms.

**HOMELINK HOUSING DEVELOPMENT SCHEME (HHDS)**

12.11 Pursuant to the launch of Homelink in May, 2004, your Central Bank has been engaging various stakeholders on the establishment of a Housing Development Programme for non-resident Zimbabweans.

12.12 On the back of overwhelming interest and demand for this initiative by non-resident Zimbabweans, the Reserve Bank is pleased to announce a **Z$750 billion (demand-driven) Diaspora Housing facility** whose main structure is as follows:

(a). The facility is on a first come first served basis to all Zimbabweans in the diaspora.

(b). The Reserve Bank will license project promoters, who will include inter-alia, Real Estate Agents, Building Societies and foreign-based companies owned by Zimbabwean promoters.

(c). Participating non-resident Zimbabweans would draw the structured diaspora housing facility, which would be converted into foreign exchange at the ruling auction exchange rate on date of transaction.

(d). The underlying bond, which would be in foreign exchange, will be at **a risk-weighted interest rate, and in line with mortgage rates prevailing in the foreign country in which the Zimbabwean beneficiary is domiciled.**

(e). Project Promoters will be expected to conduct due diligence on the applicants to determine their eligibility and credit rating, before drawing on the facility.

(f). The loan will be repayable in foreign currency over a period of up to 60 months (5years) for purchase and/or construction of residential property. For purchase of residential stands, the maximum repayment period will be 12 months. There will be no penalties on non-resident Zimbabweans benefiting wishing to prepay the facility.

(g). In the event that the mortgage holders cannot continue to participate in the scheme, the Reserve Bank will purchase the property from the owner. The proceeds from the transaction will be re-imbursed in foreign currency up to the maximum amount contributed by the individual and will also be fully remittable. To qualify for this guarantee, the bondholder should have made regular payments to the scheme for at least 12 months. However, the failure to continue making repayment should not be **self- inflicted.**

(h). All disbursements on the loan will be in Zimbabwe dollars through the project promoter's nominated Building Society. There will be no mandatory requirement for a deposit.

(i). First Mortgage bonds will be registered in favor of the Reserve Bank over the residential properties to be financed under the scheme. Project promoters will also be required to surrender to the Reserve Bank of Zimbabwe, personal guarantees as security to protect non-resident Zimbabweans participating on this scheme.

(j). To ensure that bondholders are not prejudiced in any way under this scheme, the Reserve Bank will conduct regular on-site and off-site inspections on the use of the disbursed funds and the general management of the project by licensed companies. Heavy penalties will be levied against any abuse of this scheme.

12.13 Our dream, as your Central Bank, is to see our fellow Zimbabweans in the diaspora competing among each other to showcase the intricate, varied and elaborate breeds of architectural designs they come across during their travels, to elevate the marvel sights of our beautiful cities here back home.

## DIASPORA ADVISORY BOARDS

12.14 As Monetary Authorities, we wish to extend our profound gratitude to many dedicated Zimbabweans who have offered to serve as Advisors to the Governor and the Bank under the framework of the Advisory Board.

12.15 Their commitment and goodwill finds expression in the formation of 11 Diaspora Advisory Boards in the following international areas:

(a) Indianapolis – USA
(b) Atlanta – USA
(c) Los Angeles – USA
(d) East London – UK
(e) Central London – UK
(f) Luton – UK
(g) Slough – UK
(h) Manchester – UK
(i) Northampton – UK
(j) Leeds – UK; and
(k) Johannesburg - RSA

12.16 Through sharing of ideas and experiences on sustainable economic management, the turnaround journey will be much lighter.

12.17 Efforts will continue to be made to reach out to other fellow Zimbabweans elsewhere in the world.

## 13. NATIONAL DEVELOPMENT AND GROWTH

### REAL SECTOR DEVELOPMENTS

### Gross Domestic Product

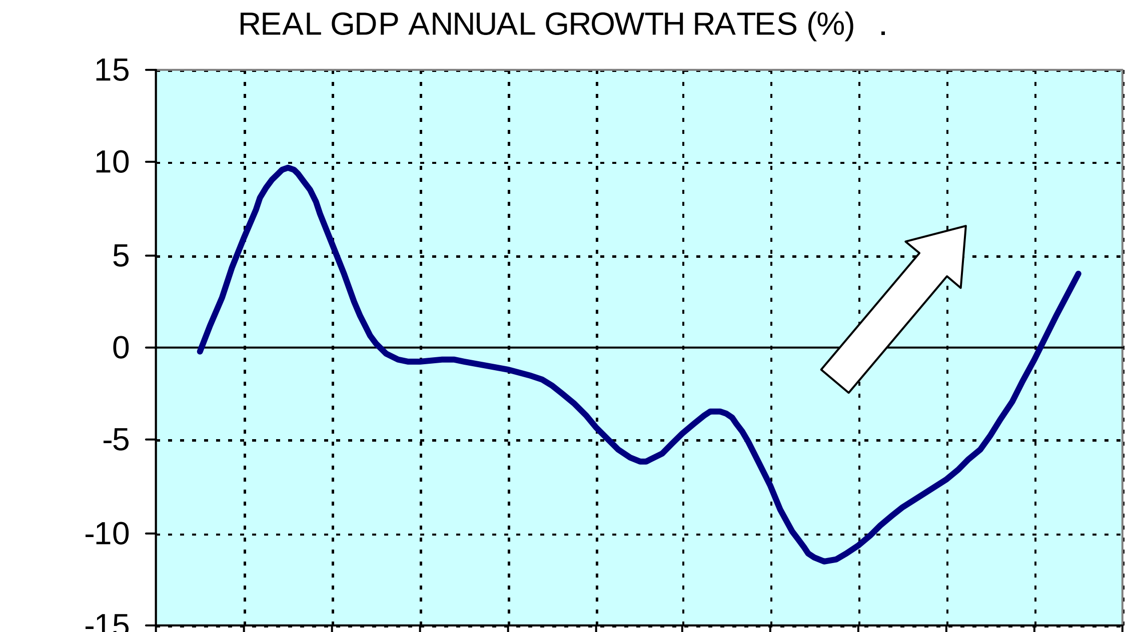
13.1 Overall performance of the economy has began to show some notable improvement though GDP for this year is still estimated to decline by 5%, compared to a worse decline of 9% in 2003, thus registering positive prospects for more defined recovery in the productive sectors.

13.2 The decline reflects largely the carryover effects of challenges that saddled the economy from the previous years.

13.3 The economy is, however, forecast to grow by between 3.5% and 5% in 2005, on the back of improved foreign exchange earnings, decline in inflation and positive supply side effects of various economic interventions during 2004.

13.4 The cleaning up process taking place in the Land Redistribution Exercise, as well as the comprehensive irrigation rehabilitation programs already underway, are expected to bolster growing productivity in agriculture.

13.5 Agriculture is, thus, expected to re-emerge as one of the leading sectors in turning around overall economic performance over the outlook period.




| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| East | -0.2 | 9.7 | 0.2 | -0.8 | -2.1 | -6.1 | -3.6 | -11.3 | -8.6 | -4.7 | 4 |

**AGRICULTURE**

13.6Agriculture remains the backbone of the economy, contributing about **16.5%** of total output and as much as **one third** of total foreign exchange earnings.

13.7 Agricultural output is projected to increase by **28%** in 2005, following an estimated decline of **3.3%** in 2004.

13.8The agriculture sector has utilized about **$1 642** billion or **57.1%** of the total disbursements under the productive sector facility, giving the sector considerable headroom to recover.

13.9 Achievement of this recovery in agriculture is, however, strongly dependent on the timeous availability of agricultural inputs, financing arrangements and technical assistance to the farmers.

13.10 The financial sector is encouraged to take full advantage of the 99 year lease agreements which were recently printed and rolled out to farmers, by fully supporting agriculture in their lending decisions.

**Tobacco**

13.11 The 2004 tobacco marketing season saw the sector registering a total flue-cured crop size of 65 million kgs, a phenomenally low level compared to the high level of over 200 million kgs registered at the country's peak performance in tobacco production.

13.12 Production in 2005 is, however, set to increase more than two-fold under the Vision 160 million kgs program, spearheaded by the Bank's Advisory Board, in conjunction with Government's efforts to revive performance in agriculture.

13.13 Under this Vision, all key requirements of the tobacco industry, including financing, seedbed preparations, tillage, chemical procurement, fertilizer availability and provision of extension services have been thoroughly scrutinized and prepared for.

13.14 A tobacco financing committee was set up by the Advisory Board to structure the financing of the 2004/2005 tobacco crop. The committee comprises Government, the Reserve Bank, Banks and representatives of the tobacco community.

13.15 The committee is raising tobacco financing resources through issuance of tobacco bills and we are please to report that up to 30 September 2004, a total of Z$ 232.5 billion had been raised.

13.16 As Monetary Authorities, we applaud Government's commitment to Vision 160, as illustrated by their immense contribution to the financial resources already at hand.

13.17 The farming community is, therefore, challenged to play their part and carry through the program beyond expectations, as much of the core requirements have been catered for.

**MINING**

13.18 The mining sector accounts for **4%** of the country's Gross Domestic Product and accounts for about **one third** of total foreign exchange.

13.19 Under the selective credit allocation system, the mining sector has accessed Z$144 billion from the Productive Sector Finance Facility which is **5%** of total disbursements.

13.20 The sector is projected to grow by **7.5%** in 2005, following an estimated growth rate of **11.6%** in 2004.

13.21 This positive upturn is largely attributed to robust performance in gold and platinum sectors.

13.22 The international prices of minerals have generally been erratic, for example gold started the year at around US$ 417 per ounce, dipped to below US$ 374 per ounce towards the end of May before rising to US$418 per ounce at the beginning of October 2004.

13.23 Generally the price of platinum followed the same trend, starting off from US$ 910 per ounce in March dropping to US$ 778 per ounce in July, before rising to US$ 864 per ounce by 1 October 2004.

**Manufacturing**

13.24 The manufacturing sector accounts for around **18%** of GDP and about **33%** of foreign exchange earnings.

13.25 The sector is estimated to decline by **8.5%** in 2004 and is expected to regain momentum in 2005 on the back of improved availability of foreign exchange and raw materials, as well as the lagged effects of ready access to concessional financing.

13.26 On a cumulative basis, the manufacturing sector had accessed Z$832 billion (or 40% of total) from the Productive Sector Finance Facility by end of September 2004.

**Tourism**

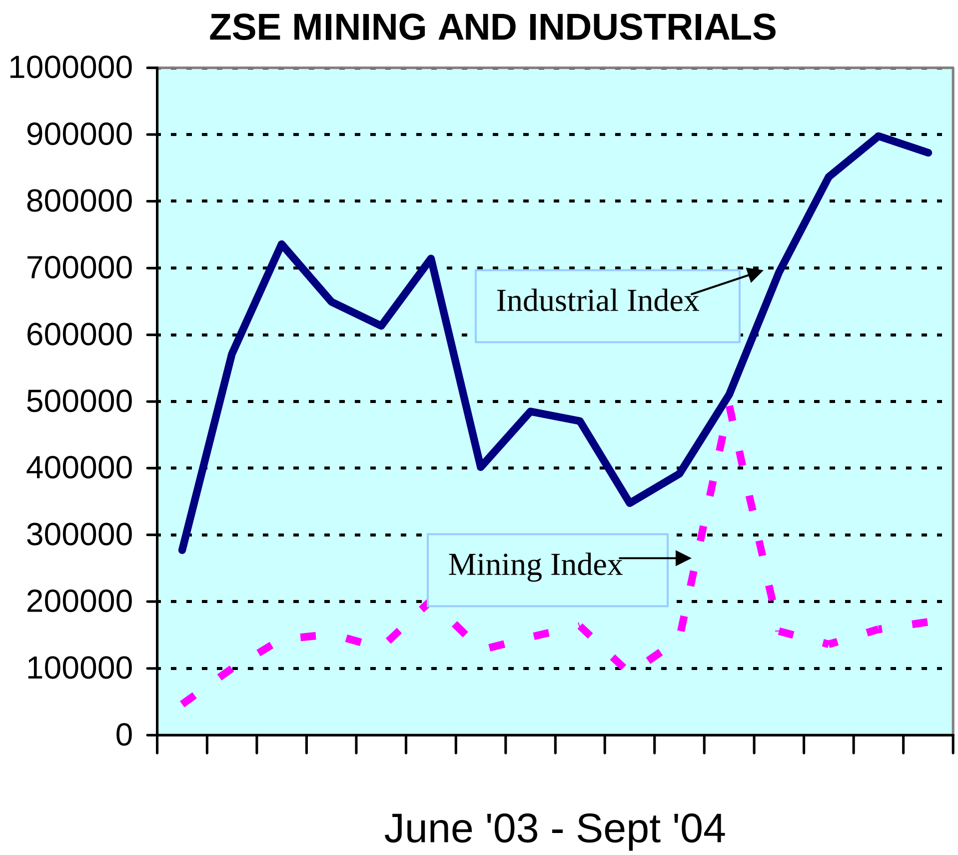
13.27 Tourism accounts for about **6.5% of** GDP and in normal years, about 10-11% of foreign exchange inflows. Currently Tourism accounts for about **3.5%** of foreign exchange earnings. Current marketing efforts to turnaround the country's Tourism Industry, including inroads into East Asia are expected to yield positive results progressively, over the next 12 to 36 months.

13.28 Zimbabwe received Approved Destination Status from China – a country with huge Tourism potential – and this is expected to further boost tourism.

**Capital Markets**

13.29 Domestic capital markets, like in most economies the world over, are an important part of the country's financial system.

13.30 Robustness shown by the country's equities market – the Zimbabwe Stock Exchange – over the past few years has anchored positive expectations about the underlying strength in the economy's real sectors.




13.31 There is, however, need to ensure that our Stock Exchange's systems and platform evolves and develops with the increase in sophistication of the market, as well as regional and international developments.

13.32 The Central Bank will work closely with leadership on the Zimbabwe Stock Exchange to ensure that this critical component of the country's financial system is smoothly integrated with the rest of the market, on the back of efficient IT systems.

13.33 Continuation of the manual trading system impairs trading agility and timely analysis of market developments, and this can not be allowed to continue.

13.34 In the new-year, modernization of the equities market will be top on the agenda of the Reserve Bank.

**THE REAL ESTATE AND CONSTUCTION SECTORS**

13.35 The Real Estate and the Construction sectors remain strategic players in the country's economic growth and development framework.

13.36 When debate on National investment promotion is motivated, there is need to recognize that viable construction, maintenance and progressions in the residential and commercial property sectors are an integral part of gross fixed capital formation in the economy.

13.37 It is against this background that as your Central Bank, under the Homelink initiative, we have ring-fenced and set aside financial resources to join hands with property developers in driving up comprehensive residential property construction programs, which are meant to benefit Zimbabweans in the diaspora, as well as provide a stimuli for recovery and growth to the Real Estate and Construction industries.

13.38 During 2005, when final work on setting up of the Zimbabwe Energy and Infrastructure Bank is targeted to be completed, greater prominence will be devoted to the country's construction industry, in terms of resource allocation and policy focus.

13.39 On the back of the rapid disinflation program we have committed ourselves to achieving in our Vision, the financial sector, particularly the Insurance and Pension Fund industries, as well as Building Societies, should aggressively reconfigure their investment strategies and support the construction industry in a big way.

13.40 Gone are the days and times when speculation and singular focus in the money market by Insurance companies, Pension Fund and Building Societies, among other players in the financial sector, could bring about meaningful returns to shareholders.

**Rent Boards**

13.41 Over the outlook period, it is also critical that the Real Estate Sector closely work together with the country's Rent Boards, such as the Commercial Premises Rent Board and the Residential Rent Board, to establish common ground on sustainable pricing regimes in the industry.

13.42 Perpetuation of random rent-setting behavior into the future only serves to militate against efforts to reduce inflation to low and stable levels.

## PRODUCTIVE SECTOR FACILITIES

13.43 As highlighted in my maiden Monetary Policy Statement, and subsequent reviews for the first and second quarters of this year, injection of a supply side response forms an important component of the Bank's anti-inflation drive.

13.44 Focus on enhancing capacity utilization in the productive sectors is also motivated by Monetary Authorities' desire to arrest the challenges of unemployment and sagging internal resource usage.

13.45 Against this background, concessional financing facilities to the productive sectors remained in place through the third quarter under review.

13.46 A cumulative amount totaling **$2.058 trillion** was disbursed over the nine months covering the January to 30 September, 2004.

13.47 However, up to the end of September, 2004, total repayments amounted to **$478 billion** leaving **the aggregate outstanding balance at $1.58 trillion.**

13.48 Against **total statutory reserve collections of $2.8 trillion** as of end of September, 2004, the argument projected in some quarters that as Monetary Authorities we are loosely printing inflationary money is grossly unfounded.

13.49 Agriculture, manufacturing, mining, transport, tourism, construction, health, distribution , and communication, are among the main sectors that benefited from this initiative.

13.50 As Monetary Authorities, we are pleased that overally, the concessional financing facilities have immensely rejuvenated economic activity, as reflected by marked increased in capacity utilization, job preservations and significant deceleration of inflation.

**Sectoral Utilization of PSF Facility**

| **Sector** | **Loan Amount (Z$bn)** | **Percentage of Total** |
|---|---|---|
| Agriculture | 893.1 | 43.4 |
| Manufacturing | 831.7 | 40.4 |
| Mining | 143.8 | 7.0 |
| Transport | 74.7 | 3.6 |
| Tourism | 68.5 | 3.3 |
| Construction | 15.3 | 0.8 |
| Distribution | 15.0 | 0.7 |
| Communication | 12.0 | 0.6 |
| Health | 3.4 | 0.2 |
| **TOTAL** | **2,057.5** | **100.00** |

**Facility for Parastatals and Local Authorities**

13.51 As of 30 September, 2004, **$72.64 billion** had been disbursed to the following parastatals and local authorities, under the Bank’s carrot and stick framework, that places emphasis on audited set of accounts for

2003, credible turnaround plans and corporate governance frameworks, among other factors:

**Utilization of Facility for Parastatals and Local Authorities**

| **Parastatal/Local Authority** | **Amount - (Z$BN)** |
|---|---|
| Hwange Colliery Company | 10.0 |
| ZESA Holdings | 20.0 |
| Air Zimbabwe | 7.5 |
| Zimbabwe Broadcasting Holdings | 10.0 |
| Bulawayo City Council | 8.3 |
| Chitungwiza Municipality | 5.8 |
| Kwekwe City Council | 4.1 |
| Bindura Municipality | 4.76 |
| Chipinge Rural District Council | 1.43 |
| Murehwa Rural District Council | 0.75 |
| **Total** | **72.64** |

13.52 It is heartening to note that some members of the parastatal community have taken our call for adoption of solid turnaround programs seriously, and have committed to doing so as a matter of priority over the outlook period.

13.53 We impress upon management and boards at these institutions to ensure that their submitted strategies and plans are followed through by rigorous implementation.

13.54 We also wish to commend the City of Harare for their recent decision to rebalance and optimize on their asset portfolio by disposing some of their real estate properties to unlock financial resources to meet urgent commitments while they attend to our observed shortcomings in their application for support.

13.55 We commend their determination to fully address all our concerns before accessing the concessional financing facilities.

**Gradual Phasing Out of PSF**

13.56 As Monetary Authorities we wish to take this opportunity to, once again, firmly advise all beneficiaries of the concessional financing facilities to prime their operations for eventual retirement of outstanding debts under these facilities.

13.57 As a country, we do not wish to entrench subsidies, dual interest rates and exchange rate systems as a way of our corporate living, as this is not part of our medium to long term strategies.

13.58 Consistent with this, and as pre-announced in the Bank's earlier Monetary Policy Statements, new disbursements have been considerably slowed down to allow for eventual winding-off of the facilities.

**13.59** Against this background, all the productive sector facilities ought to be fully repaid by **not later than 30 June, 2005.**

13.60 Those with earlier maturities will, therefore, only be rolled over, on a case by case basis, and on condition that full repayment will be before the stipulated deadline.

13.61 This deadline applies for both exporters and non-exporters.

13.62 To minimize potential cash-flow crunches associated with one-off bullet repayments, borrowers are strongly encouraged to establish sinking fund loops that ensure sustainable amortization of the amounts borrowed under the facilities.

13.63 The Bank wishes to doubly emphasize to the banking industry that they also play an active role of policing and following up on loan repayments, as no room will be left for any attempts to transfer credit risk elsewhere.

**Need for Corporate Morality on PSF Use**

13.64 In our Monetary Policy Review Statement for quarter ended June, 2004, the Bank spoke very strongly against banking institutions and borrowers who were abusing funds accessed under the concessional facilities.

13.65 This notwithstanding, it is disheartening to note that some corporates have elected to declare hefty dividends well before making good their borrowings under the concessional facilities.

13.66 In some instances, corporates are daring to declare the fanfare dividends barely a few hours after accessing concessional support on the back of their purported distress calls.

13.67 Such practices exude the highest level of corporate immorality, and only serve to undermine policy effectiveness.

13.68 This can not be allowed to go unfettered. No!

13.69 In order to curb such continued abuse of the well meaning productive sector facilities, the following policy position has been adopted with immediate effect.

(a) The Reserve Bank is calling back all amounts outstanding under the PSF in cases of companies which declared dividends post accessing PSF. **Each corporate is to represent its case to the Bank, through their bankers by not later than 30 November, 2004.** We have a full list of these companies, and any cheating will be dealt with severely.

(b). For those corporates which fail to pay up, their outstanding amounts equivalent to dividends paid out **will be converted to market interest rates.** Banks should note that they have a role to play in advising their customers of prudential financial management, as well as the need for true representation when applying for PSF support. **The incremental penalty revenue on adjustment to market rates, in the case of errant corporates, would be for the account of the Reserve Bank,**

**to go into the Productive Sector Penalty Fund** announced in my Monetary Policy Review for the second quarter of 2004.

(c) **All corporates wishing to declare and pay out dividends must ensure that they first pay back any amounts owing under the PSF. Failure to do so would automatically trigger a call back on all outstanding PSF borrowings.**

13.70 These measures, which will be enforced religiously, are meant to ensure that concessional funds are not diverted into non-productive consumptive purposes which fuel inflation. This includes pockets of shareholders.

13.71 The Reserve Bank also wishes to further warn corporates, encompassing their board of directors, management, shareholders and their financial advisors that commandeering PFS funds into shoddy money market deals is illegal and, hence will not be tolerated.

13.72 Such practices slow down our recovery process, both at the firm level (which is starved of working or investment capital), as well as on the inflation front.

13.73 As Monetary Authorities, we have also been shocked to discover some board chairpersons authoritatively issuing directives to management to channel PSF funds into money market placements. Clearly, to these, every effort will be made to ensure a complete stop to such ultra-toxic practices.

13.74 In some of these cases, the Bank had to confiscate the undue interest income so earned, as well as to call back the funds into the Central Bank coffers.

13.75 The Reserve Bank also wishes to remind stakeholders that audits to verify proper usage of all funds disbursed under the concessional facilities, since January 2004 are already underway.

13.76 These audits are also being extended to the special facilities extended to the agricultural sector, such as,

(a) The 2004 winter wheat program;

(b) The irrigation rehabilitation fund;

(c) The Vision 160 million kgs fund for the tobacco industry; and

(d) Agricultural equipment facility.

13.77 Yes, it may take days, weeks or months before our audits and surveillance systems catch up. But when they do, our stance would have been rooted beyond any compromise. It is thus, better not to be tempted in the first place!

13.78 Beneficiaries of the concessional facilities should, therefore, exercise the highest levels of restraint, integrity and accountability as the Bank shall not tire in recovering every penny of public funds disbursed.

## ALTERNATIVE ENERGY SOURCES

13.79 Sustainable economic turnaround demands that, as a country, we vigorously expand our capabilities towards harnessing alternative energy sources.

13.80 Geological tests, for instance, have long established that this country has immense reserves of methane gas – a strategic alternative source of energy.

13.81 Illustrious investments in research and development by some private sector players in the region, for instance, that by Sasol in the Republic of South Africa, have demonstrated the immense economic value that can be unlocked from coal as a strategic source of alternative fuel.

13.82 Again, geological surveys have convincingly proven that Zimbabwe has high grade coal reserves, enough to last for hundreds of years.

13.83 As your Central Bank, we stand ready to support investors – both local and foreign, who wish to enter into the strategic energy sector.

13.84 It is equally critical that the National Budget framework also recognize the urgent need to spearhead and support key projects to boost the country's energy sector.

## NATIONAL PRODUCTIVITY CENTER

13.85 Sustainable economic turnarounds over the medium to long-term, need to be anchored on the inextricable link between active industrial research and productive efficiency.

13.86 Thus, until and unless, as a country, we entrench productivity in our economic systems, through large-scale scientific research, turnaround gains made over the short to medium-term stand threatened by potential reversals from stalled competitiveness due to antiquated production systems. This, in a world economy whose technological frontiers are ever expanding will sure lead to the doom of our cherished destiny as a self-sustained people.

13.87 As Monetary Authorities, we wish to register our commitment to work with the relevant Authorities to resuscitate the National Productivity Center, which we believe has been shut down due to resource constraints.

## PUBLIC ENTERPRISE REFORM

13.88 As Monetary Authorities, we wish to extent our sincere gratitude to the Office of His Excellency The President and Cabinet for taking a firm stance on promotion of good corporate governance in Government Ministries and Parastatals.

13.89 Through such focus, scarce resources would be better managed and deployed efficiently among the competing needs.

13.90 As your Central Bank, we stand firm on our commitment to see the parastatal community exercise the highest level of transparency, accountability and responsiveness to society's demands on them.

13.91 We once again call upon our principals in Government to instill greater accountability in the parastatal community by enforcing the following virtues of good corporate governance:-

(a) Introduction of performance based contracts;

(b) Requirements for mandatory externally audited accounts, that should be published;

(c) Periodic appraisal of effectiveness of Boards of Directors; and

(d) Mandatory turnaround programs and strategic plans, followed through by active implementation.

## Partnerships and Joint Ventures

13.92 The fast-paced world of today also compels that our public enterprises break away from the comfort conferred by their natural monopoly status and pursue strategic alliances and partnerships with regional and international investors.

13.93 Areas where such initiatives can be gainfully structured include:

(a) The air travel industry – Air Zimbabwe;

(b) Railway industry – NRZ;

(c) Power generation and distribution – ZESA;

(d) Telecommunications industry – TelOne;

(e) Coal mining;

(f) Steel manufacturing – ZISCO; and

(g) Water provision – ZINWA.

## Association of Public Enterprises

13.94 It has also become high time that our parastatals group themselves together and formulate an association of public enterprises, with the main objective of peer review and promotion of excellence.

13.95 To kick-start this process, as your Central Bank, we have ring-fenced resources that would go towards sponsorship of the Parastatal of the year awards.

13.96 A similar initiative is being put together to cater for municipalities.

**FISCAL DISCIPLINE**

13.97 Successful reduction of inflation to low and stable levels requires that the fiscal and monetary sides remain fully complementary to each other.

13.98 As Monetary Authorities, we are pleased with the tremendous efforts Government is making, to ensure that the country operates within the framework of announced budget parameters.

13.99 In the First and Second Quarter Monetary Policy Review Statements, the Reserve Bank commended Government for maintaining surplus cash positions on their Central Bank account.

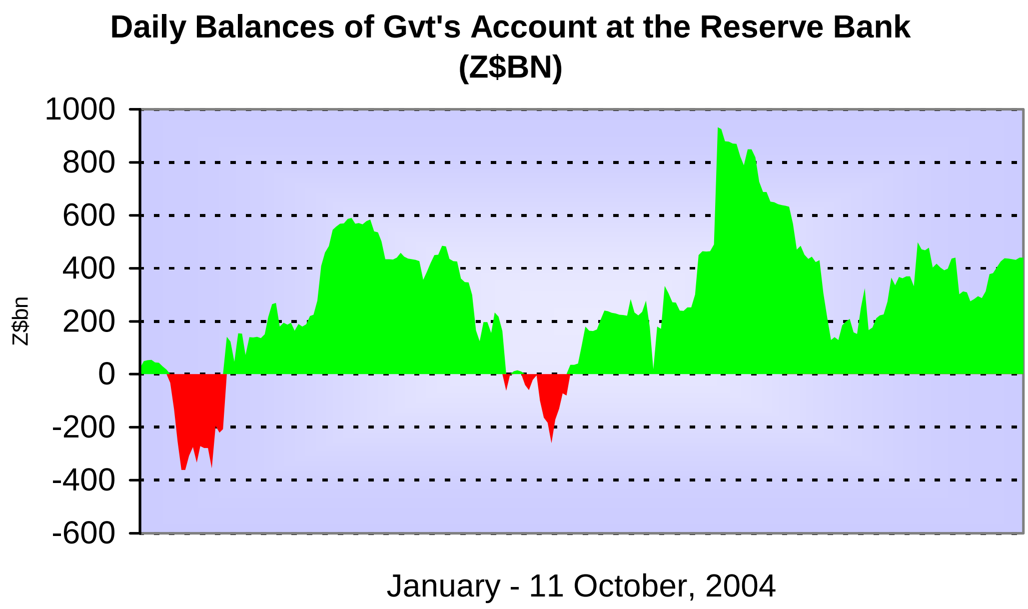
13.100 With marginal deficit positions only in two months, January, and May, 2004, ($125.36 billion) and ($14.62 billion), respectively, the rest of the months for the year to date had surplus positions.

13.101 Average daily surplus positions peaked at $696.49 billion in July, 2004, and were kept well out of deficits at positive balances of $260 billion to $403.04 billion through to 15 October, 2004.

13.102 These surplus cash positions by Government have become an important component complementing the Central Bank's liquidity management framework, through their net withdrawal effect on excess liquidity from the financial market.

**Status of Government's Account at the Central Bank**

| Month (2004) | Government's Average Daily Cash Positions at RBZ ($bn) | Comment |
|---|---|---|
| **January** | (125.36) | (Deficit) |
| **February** | 187.39 | Surplus |
| **March** | 501.30 | Surplus |
| **April** | 305.05 | Surplus |
| **May** | (14.62) | (Deficit) |
| **June** | 233.76 | Surplus |
| **July** | 696.49 | Surplus |
| **August** | 264.48 | Surplus |
| **September** | 372.55 | Surplus |
| **1-15 October** | 403.04 | Surplus |




13.103 To further build on the economic gains registered to date, we call upon our principals in Government, and all stakeholders to collectively ensure that the imminent National Budget is, yet again another beacon and illustration for the Nation's unreserved commitment to gainful economic reforms.

## 14 REGIONAL AND INTERNATIONAL

### Global Economy

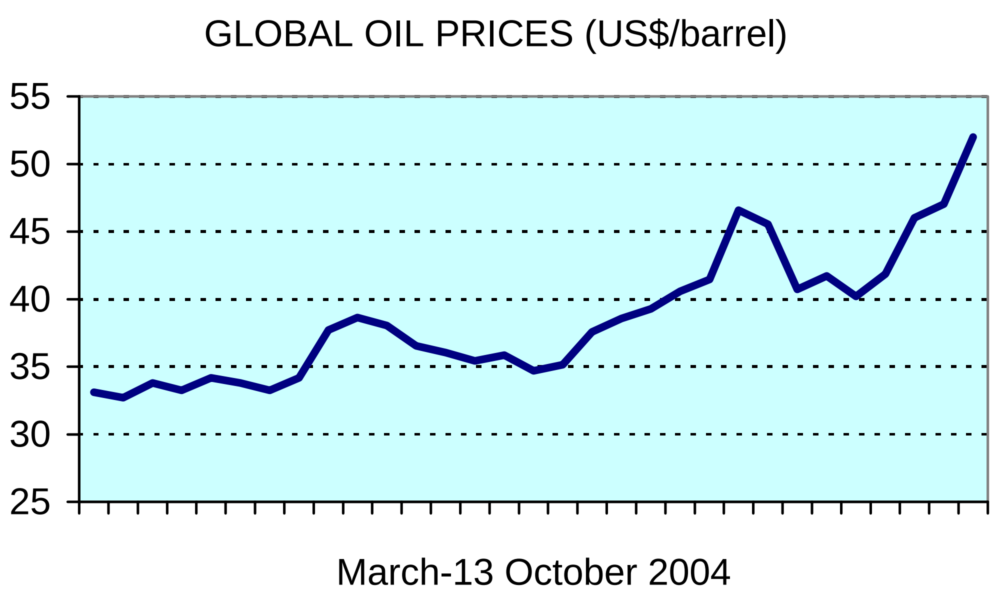
14.1 Global GDP growth is projected to average 4.75% in 2004, underpinned by stronger than expected economic upsurge in the first quarter of 2004.

14.2 This follows very strong growth prospects of around 9% for 2004 in China.

14.3 The adverse impact of higher oil prices, slackening fiscal and monetary stimulus is expected to slow down global growth in the second quarter of 2004.

14.4 The sharp increase in international oil prices are a clear testimony of the urgency with which world economies should work tirelessly to break into alternative energy sources.

14.5 For countries dependent on imported fuel, such as Zimbabwe, the over 70% increase in fuel prices over the last 12 months impose additional rigidities to the inflation battle, where extra counter measures have to be implemented to sterilize the cost push effects of rising oil prices.



**Sub-Saharan Africa**

14.6 Gross domestic product (GDP) growth in Sub-Saharan Africa continues to vary across countries, reflecting differences in economic management systems, ravaging effects of occasional droughts, vulnerability to volatile international commodity prices and a narrow industrial base in the majority of countries, among many other factors.

14.7 GDP growth in Sub-Saharan Africa is projected at 4.6% in 2004, following the 3.5% growth in 2003. The growth in 2004 is largely resulting from higher than expected growth in Nigeria.

14.8 Increase in GDP growth in Sub-Saharan Africa is also underpinned by improving macro-economic stability, growth in global demand for commodities at higher prices and improved access to markets in developed countries.

14.9 In the SADC region, significant variations in economic growth trends still remain the norm.

14.10 The average annual inflation, excluding Zimbabwe, in the region has declined from 17.1% in 2002 to 16.3% in 2003 and is forecast to decelerate further to 11.7% in 2004.

14.11 SADC Finance Ministers agreed in 2002 on procedures to ultimately adopt procedures that will bring about macroeconomic convergence in SADC countries.

14.12 This Vision, also shared by the SADC Committee of Central Bank Governors, is espoused in the following targets to be achieved by SADC countries by 2008;

(a) Inflation of below 10% per annum.
(b) Fiscal budget deficit of under 5% of GDP.
(c) Central bank credit to the Government of less than 10% of previous year’s tax revenue.
(d) External reserves should at least cover 3 months of merchandise imports.

14.13 Zimbabwe, as a key member of this regional community of Nations is committed to meeting these fundamental benchmarks, as this would lay the basis for stronger ties with trading partner countries – regionally and internationally.

## 15. RELATIONS WITH THE INTERNATIONAL COMMUNITY

15.1 Progressive engagement of the international community remains an important part of the turnaround program.

15.2 As espoused in our Vision 2007, which we unveiled in December 2003, in its short, medium and long-term perspectives, the turnaround program envisages a single digit inflation economy, free of distortions in the domestic money and foreign exchange markets, and with a growing productive base.

15.3 Page 2 of the December, 2003, Monetary Policy Statement set the 12 Months Vision as:

**Quote:** *"…to see the implementation of policies that seriously arrest and reverse our inflation from the expected initial peak…to below 170-200% levels"*

15.4In setting this Vision, we were under no illusion that this would come overnight, and hence, from inception, made it clear and transparent that over the short-term, it was inevitable to allow for transitory distortions to allow for orderly adjustment that has a human face.

15.5To this effect, page 3 of the Maiden Monetary Policy Statement clearly stated:

**Quote:** *"The Vision will allow for deliberate, short-tem exchange and, interest rate distortions. A middle of the road exchange rate management regime will be adopted and the dual interest rate policy maintained"*

15.6At inception of the turnaround program, we also committed our earnest desire to expedite the convergence process, and this forms a key component of the 24 months Vision, which underscored that:

Quote: *"Our medium term Monetary Policy Vision to December 2005 is to see a consolidation of gains from Vision 2004, which* *should express themselves through reduced inflation levels, from three digits to a two digit figure…..*

15.7…..*On the currency front, the Vision is to see the convergence of our interim exchange and interest rate distortions into one stable currency with one exchange rate, in an economy charging uniform positive (real) interest rates…"* [MPS, 18 December, 2003, page 3].

15.8The last nine months have seen the country vigorously pursue the landmark deliverable as laid out in Vision 2007, and as Monetary Authorities, we are pleased that what was a dream is steadily materializing through marked improvement in the macroeconomic environment.

**Repayments to Multilateral Creditors**

15.9Our desire to work together with the international community also impels us to make every effort to enhance our cooperation on debt repayments to our international creditors.

15.10 As Monetary Authorities, we are please to report that modest initiatives have been forged in this respect, with the country stepping up its repayments to the International Monetary Fund (IMF), from US$1.5 million per quarter, to US$5 million per quarter, beginning the June, 2004.

15.11 Modest quarterly symbolic repayments to the World Bank, and the ADB also continue to be effected, as the country's expression of its deep desire and commitment to make good all its international financial obligations.

15.12 As the foreign exchange situation improves, significant improvements will be effected on the level of cooperation on debt service, bolstered by the ongoing comprehensive macroeconomic policy reforms.

**Foreign Investments Protection**

15.13 Sustainable turnaround of the country's economy also requires that, we give foreign investors the highest assurance that their investments will be fully protected from any obstructive practices by any untoward elements of society – individuals or groups.

15.14 As Monetary Authorities, we are heartened by Government's recent decision to form an **Inter Ministerial Taskforce on Bilateral Investment Promotion and Protection Agreements (BIPPAS)**, tasked to ensure that no foreign investment agreements are violated across all sectors of the economy.

**Residents' Permits**

15.15 The current requirement, among other considerations, for one to obtain a resident's permit in Zimbabwe is to pay US$1 million in permit fees.

15.16 As part of promoting foreign investment, the Central Bank is engaging the relevant Authorities for these fees to be reduced to levels that balance the investment motive and the need to weed out influx of undesirable characters, such as international fugitives.

15.17 Many countries, particularly those that are now the pride of many in terms of development and growth, have achieved their status on the back of balanced immigration frameworks that taped on foreign human and financial capital.

## 16. SOCIAL CONTRACT

16.1 In our Maiden Monetary Policy Statement of December, 2003, as well as in subsequent reviews for the first and second quarters of 2004, we emphasized the need for stakeholders in Government, Labor, Business, Civil Society and the Financial Sector to fortify the economic turnaround program through binding social contracts that stabilize prices, wages, interest rates and increase productivity, among other socio-economic indicators of well-being.

16.2 I am pleased to report that under the auspices of the Bank's Advisory Board, immense progress as been registered towards meeting this objective.

16.3 Over the review period, the Advisory Board established, among other Subcommittees, the Pricing and Incomes Subcommittee, comprising the following members:

(a). Mr. N. Kitikiti – National Economic Consultative Forum (NECF) (Chair).

(b). Mr. W. Matsaira – Immediate Past President, Bankers Association.

(c). Mr. J. Chinotimba – Deputy Chairman, Zimbabwe Federation of Trade Unions (ZFTU).

(d). Mr. W. Chibhebhe – Secretary General, Zimbabwe Congress of Trade Unions (ZCTU).

(e). Mr. M. Bimha – President, Employers Confederation of Zimbabwe (EMCOZ).

(f). Mr. A Mandiwanza – Immediate Past President, Confederation of Zimbabwe Industries (CZI).

(g). Mr. W. Manungo – Permanent Secretary, Ministry of Finance and Economic Development.

(h). Mr. L. Zembe – President, Zimbabwe National Chamber of Commerce (ZNCC).

(i). Mr. E. Ndlovu – Ministry of Industry and International Trade.

(j). Mr. Dzviti – Ministry of Public Service, Labor and Social Welfare.

(k). Reserve Bank Representatives.

16.4 Intense deliberations by this Subcommittee have culminated in key recommendations on management of pricing and incomes policies.

**Pricing**

16.5 The Subcommittee came up with proposals which we endorse and recommend that the country's pricing regimes be closely monitored and managed for at least 18 months, within the framework of trigger mechanisms that take into account changes in production costs, viability and the need to arrest inflation.

16.6 This framework, proposed to be initially targeted at major consumer price inflation drivers has been recommended to operate on a cost plus markup basis.

16.7 As the Subcommittee does more work to assess detailed modalities for this initiative, it is imperative that collectively, all providers of goods and services in the economy apply the highest level of restraint in reviewing their pricing systems.

16.8 It is of utmost importance that this process be distinctly separated from price controls, which, as a country, we have worked hard to remove from our markets, and do not wish to reintroduce, owing to their attendant burden on economic efficiencies.

**Incomes**

16.9 The multi-sectoral Subcommittee also jointly recommended the signing of a social contract between labor unions and employer associations, committing stabilization of prices for goods and services in return for restraint on wage increases.

16.10 In recognition for the need to uplift the general living conditions for the majority of fellow Zimbabweans, the Subcommittee strongly advocated for a nationwide minimum wage that is based on poverty datum line thresholds.

16.11 Within this framework, companies or industries are called upon to negotiate, upfront, increases in wages tied to productivity targets.

16.12 As progress in fighting inflation continues to bear fruit, labor unions are implored to shift away from benchmarking wage negotiations on past inflation, and move more towards forward-looking contracts that take into account the positive effects of falling inflation.

16.13 As the saying goes, “in Vision-driven Missions, never look backwards unless you want to go that way”. Indeed as a Nation, we do not want, **ever again**, to relapse into the unbearable hyper-inflation episodes that we are painfully shaking off our economy.

16.14 Striking of a sustainable social contract demands that we all, at the minimum, share the common interest of stabilizing the business operating environment.

16.15 We need to avoid speaking in tongues, running with the hares and hunting with the hounds.

16.16 As your Central Bank, we get positive feedback during the day only to be condemned out of extinction and given all sorts of names at night by those stakeholders whom we thought should know better or hold dear the values that liberated this country and the Vision of those who paid the supreme price.

**INDIGENIZATION/EMPOWERMENT**

16.17 Over the last few years, Zimbabwe has witnessed quite a number of empowerment and indigenization programs. These initiatives are most welcome and should be accelerated.

16.18 As Monetary Authorities, we note with concern, however, that some of these empowerment and indigenization programs have merely sought to enrich a few individuals, especially top management teams, by and large, leaving out the equally deserving workers at lower levels.

16.19 We urge the Authorities to closely examine how some of the empowerment and indigenization programs are motivated, paying particular attention to such programs' degree of inclusiveness.

16.20 Through this scrutiny, we should, as a country, avoid endorsing and celebrating skewed empowerment programs… because endorsing them;

16.21 As they are would tragically perpetuate income disparities among fellow Zimbabweans well into eternity, and we cannot remain blind to these inequities.

16.22 Such a turn of events is, certainly not consistent with our collective Vision of a growing Zimbabwe that has brighter and equal prospects for everyone. Vision 2007 seeks to deliver economic prosperity to us all.

## 17. CONCLUSION

17.1 In conclusion, Honorable Minister, it is pertinent to point out that economies in the Far East, Singapore for instance, transformed themselves from third world to first world countries in just a quarter of a century…

17.2 The Chinese economy, which is now the envy of many today, growing at 9% per year has progressed through various stages of growth and development, overcoming challenges and set-backs of one form or another, using homegrown programs…

17.3 The economic story of Malaysia is equally text-book material, showing how an economy which was on the verge of collapse in 1997/98 was turned around to its present giant status.

17.4 The Irish economy rose from a basket case in the early 1940s to the pride of Europe that it is today as a result of careful planning and implementation of a sound, homegrown turn-around program. It went through an equally difficult land ownership and transformation process similar to ours.

17.5 The German economic history and its renaissance over the last two decades is compulsory reading for those keen to borrow a page from others who went through a worse socio-economic and political road than us.

17.6 Finally, among the developed countries, Japan emerged from the Second World War battered to the ground, but today no economic debate in the world is complete without the mention of Japan and its robust economy.

17.7 The historical development of the American economy and how it has evolved over the years has not been without its own ups and sometimes, acute down turns.

17.8 From harnessing its rich mineral resources, fertile farm soil, together with a moderate climate among other natural endowments, the US economy is where it is today, courtesy of its hard working and the collective commitment by all its citizens, wherever they are in different parts of the world.

17.9 The above examples are indicative of how acutely aware we are, as Monetary Authorities, of what other countries and economies have had to go through before reaching their current enviable standings, often quoted to us as classical models of economic growth and development by various stakeholders.

17.10 It is pertinently clear that one phenomenon runs through all the cases quoted above… a period of conflict, followed by unity of purpose, and then a focused attention to a home-grown turn-around solutions, which delivered the countries from socio-economic tribulations to stability and sustained growth.

17.11 Zimbabwe is a country that emerged from a protracted and bloody armed conflict that gave rise to its independence in 1980.

17.12 It experienced superficial harmony and with that, temporary but unsustainable economic wellbeing, before the country embarked on the Land Reform Program that gave rise to another breed of conflict, from which the Nation is just beginning to emerge stronger.

17.13 Our collective track-record over the last nine months has demonstrated what the country is capable of achieving, and more is still in store for us if we can do the following:

(a) hasten completion of the land reform program, in terms of the Utete Land Commission Report.

(b) respect local and international agreements to which we are a signatory;

(c) speak with one voice and act in union when it comes to national matters;

(d) identify and harness our collective efforts towards the common good, emphasizing more on those factors that bind together all Zimbabweans as a people, rather than separate us.

(e) Work hard and shun deceit, short-cuts and other wayward tendencies that work against our collective good as a people.

17.14 On our part, as Monetary Authorities, no amount of difficulty or hurdles will shrink our fierce determination to turn around this economy.

17.15 No amount of intimidation, misrepresentation in some quarters or veiled threats will deter our focus and commitment to deliver a low inflation environment, a conducive investment climate and an economic environment that brings respect and pride to all Zimbabweans before December 2007.

17.16 To this end, we once again declare that "failure is not an option and retreat is not on our agenda."

17.17 In God's hands, and in your hands, I once again commit this Monetary Policy Statement and its intentions.

I thank you.

**G. GONO**
**GOVERNOR**
**28 October, 2004**

## ANNEX 1: MEMBERS OF THE GOVERNOR'S ADVISORY BOARD

| | |
|---|---|
| Dr. G. Gono | Governor, Reserve Bank of Zimbabwe (Chairman) |
| Mr. E. Mashiringwani | Deputy Governor, Reserve Bank of Zimbabwe. |
| Mr N. Ncube | Deputy Governor, Reserve Bank of Zimbabwe. |
| Dr. C. Dhliwayo | Deputy Governor, Reserve Bank of Zimbabwe. |
| Mr. N. Machirori | Chairman, Tobacco Industry Marketing Board |
| Mr. B. Sandamu | Chief Executive Officer, Horticultural Promotion Council |
| Mr. D. Mugabe | President, Zimbabwe Commercial Farmers' Union |
| Mr. W. B. Mashingaidze | Chairman, Tobacco Growers Trust |
| Mr. D. Taylor-Freeme | President, Commercial Farmers' Union of Zimbabwe |
| Mr. D. Millar | Immediate Past President, Zimbabwe Tobacco Association |
| Mrs. J. Mutasa | President, Indigenous Business Women Organisation |
| Mr. B. Mucheche | President, Indigenous Business Development Centre/Zimbabwe Transport Operators |
| Dr. N. M. Nyangulu | Investments and Funding Consultant |
| Mr. S. Dube | National Association of Non-Governmental Organisations (NANGO) |
| Mr. J. Mudehwe | National Association of Non-Governmental Organisations (NANGO) |
| Mr. I. M. Kamba | Acting Director of Economics, President's Office |
| Dr. S. Z. Gata | Executive Chairman, ZESA Holdings |
| Mr. G. Pasi | Commissioner General, ZIMRA |
| Mr. N. D. Kitikiti | Executive Secretary, National Economic Consultative Forum |
| Mr. T. A. Mabikacheche | Chairman, Estate Agents Council |
| Mr. A. Mandiwanza | Immediate Past President, Confederation of Zimbabwe Industries |

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|---|---|
| Mr. L. Zembe | President, Zimbabwe National Chamber of Commerce |
| Mr. P. Sithole | President, Confederation of Zimbabwe Industries |
| Mr. W. Zireva | Chairman, Retail Association of Zimbabwe |
| Mr. S. Mutasa | Group Chairman, T A Holdings |
| Mr. D. B. McDevitt | National Tyre Services Limited / Dunlop Zimbabwe |
| Mr. G. Gomwe | Chief Executive Officer, Anglo-American Corporation |
| Mr. M. C. Bimha | President, EMCOZ |
| Mr. W. Chibebe | Secretary General, Zimbabwe Congress of Trade Unions (ZCTU) |
| Mr. J. Chinotimba | Vice President, Zimbabwe Federation of Trade Unions (ZFTU) |
| Mr. V. Mhizha-Murira | Institute of Chartered Secretaries and Administrators in Zimbabwe |
| Mr. S. Chitale | World Bank, (Harare Office) |
| Dr. E. W. Bloch | President, Institute of Chartered Accountants/ H. and E. Bloch and Company / Economic Commentator/ Director of Several Companies |
| Mr. E. Mushayakarara | President, Bankers' Association of Zimbabwe |
| Mr. W. Matsaira | Chief Executive Officer, Standard Chartered Bank |
| Ms. E. Nerwande | Chief Executive Officer, ZIMTRADE |
| Mr. W. K. Chidakwa | Chief Executive Officer, Export Processing Zones Authority |
| Mr. T. Moyo | Chief Executive Officer, Datlabs |
| Mr. H. Nkala | Immediate Past, Chief Executive Officer, Rainbow Tourism Group |
| Mr. J. S. Mutizwa | Group Chief Executive Officer, Delta Corporation |
| Mr. S. A. Munyeza | Chief Executive Officer, Zimsun Leisure Group |
| Dr. T. J. B. Jokonya | Chief Executive Officer, Zimbabwe Tourism Authority |
| Mr. N. K. Misi | President, Zimbabwe Gold Millers and Miners' Association |

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|---|---|
| Mr. J. L. Nixon | Chief Executive Officer, Rio Tinto Zimbabwe |
| Mr. D. E. H. Murangari | Chief Executive Officer, Chamber of Mines |
| Mr. G. D. Hollick | Immediate Past, Group Chief Executive Officer, Old Mutual Zimbabwe Limited |

**Permanent Secretaries**

| | |
|---|---|
| Dr. M. J. M. Sibanda | Chief Secretary to the President and Cabinet |
| Mr. W. Manungo | Permanent Secretary, Ministry of Finance and Economic Development |
| Rtd. Colonel C. Katsande | Permanent Secretary, Ministry of Industry and International Trade |
| Ambassador J. M. Bimha | Permanent Secretary, Ministry of Foreign Affairs |
| Dr. E. Xaba | Permanent Secretary, Ministry of Health and Child Welfare |
| Mr. G. Charamba | Permanent Secretary, Department of Information and Publicity, President's Office and Cabinet |
| Dr. W. Mbizvo | Permanent Secretary, Ministry of Higher and Tertiary Education |
| Dr. T. K. Tsodzo | Permanent Secretary, Ministry of Youth Development, Gender and Employment Creation |
| Dr. S. M. Mahere | Permanent Secretary, Ministry of Education, Sport and Culture |
| Mr. P. I. Mbiriri | Permanent Secretary, Ministry of Water Resources and Infrastructural Development |
| Mr. T. E. Chigudu | Permanent Secretary, Ministry of Mines and Mining Development |
| Mrs. E. Ndlovu | Permanent Secretary, Ministry of Small and Medium Enterprise Development |
| Mr. L. Museka | Permanent Secretary, Ministry of Public Service, Labour and Social Welfare |
| Mr. N. Masoka | Permanent Secretary, Ministry of Agriculture and Rural Development |

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| Mrs. M. M. Sangarwe | Permanent Secretary, Ministry of Environment and Tourism |
| Dr. D. Sibanda | Secretary for Policy Implementation |
| Mr. D. C. Munyoro | Permanent Secretary, Ministry of Local Government, Public Works and National Housing |
| Mr. O. E. M. Hove | Permanent Secretary, Ministry of Indigenisation and Empowerment |
| Dr. V. Hungwe | Permanent Secretary, Ministry of Science Technology and Development |
| Mr. M. Matshiya | Permanent Secretary, Ministry of Home Affairs |
| Mr. J. Mupamhanga | Permanent Secretary, Ministry of Energy and Power Development |
| Mr. T. K. Maphosa | Permanent Secretary, Ministry of Defence |
| Mr. S. C. Pazvakavambwa | Permanent Secretary, Ministry of Lands, Land Reform and Resettlement, in the President's Office |
| Mr. K. Kaseke | Permanent Secretary, Ministry of Transport and Communications |
| Mr. D. Mangota | Permanent Secretary, Ministry of Justice, Legal and Parliamentary Affairs |

**Diaspora Chapters of the Governor's Advisory Board**

1. Indianapolis – USA
2. Atlanta – USA
3. Los Angeles – USA
4. East London – UK
5. Central London – UK
6. Luton – UK
7. Slough – UK
8. Manchester – UK
9. Northampton – UK
10. Leeds – UK; and
11. Johannesburg - RSA

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**RESERVE BANK OF ZIMBABWE**

**28 OCTOBER 2004**